Harnessing talent and technology in textiles

COATS GROUP PLC

ANNUAL REPORT 2016

HARNESSING TALENT AND TECHNOLOGY IN TEXTILES

- Throughout this document you will see references to where supporting information can be found online
- A full copy of our Annual Report can be downloaded along with other relevant documents from **www.coats.com/ara2016**
- You can find more information about Coats online at **www.coats.com**

On 1 January 2017 'Speciality' was renamed 'Performance Materials' in order to better reflect the present and future state of this growth area of the business.

WE ARE 19,000 PEOPLE IN 60 COUNTRIES WITH ONE COMMON PURPOSE – TO HARNESS TALENT AND TECHNOLOGY IN TEXTILES TO ENHANCE PEOPLE'S LIVES. WE ARE COATS.

For over 200 years we have worked to harness talent and technology in textiles to enhance people's lives – touching everything from sewing thread to medical sutures and fibre optic cables, from high performance threads used in planes, automobiles and safety equipment to the yarns, fabrics and accessories that inspire creative crafters the world over.

We are restless pioneers – creating new advanced materials and partnering with customers across multiple industries to realise the challenges they face.

We are Coats – helping to connect and form the fabric of daily life on our planet for over 200 years.

OUR ANNUAL REPORT FOR 2016

This is our audited Annual Report for 2016. It contains our Strategic report, Governance section, Financial statements and Other information.

Strategic report – this contains information about us, how we create value and how we run our business. It includes our investment case, business model, market place, strategy, what KPIs we measure as well as our approach to sustainability and risk.

Governance section – this contains detailed Corporate governance information, our Committee reports and how we remunerate our Directors.

Financial statements section – this contains our audited financial statements and notes to the accounts.

Other information – this contains shareholder details and regulatory information on overall group structure.

OUR 'YEAR IN REVIEW' ONLINE FOR 2016

We have produced a printed, audited version of this year's Annual Report because we are legally required to do so and we also know some stakeholders want to read the report in this format.

However, this year we have elected to put more energy into producing an online 'Year in Review'. We have done this as many more people now view our Annual Report online than in print, and we believe online provides a more visually engaging way to communicate our progress in the year.

2016 FULL YEAR RESULTS AND HIGHLIGHTS

CONTENTS

1 Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1b).

2 Denotes KPIs – for definitions see page 14.

Financial performance

		2016	2015[1]	Change	Ⓐ CER change	Ⓐ Organic change
Revenue	reported	$1,457m	$1,472m	(1%)	2%	**1%**[2]
Operating profit	reported	$153m	$111m	38%		
	Ⓐ adjusted	$158m	$140m	13%	16%	**14%**[2]
Basic earnings per share	reported	4.28c	(3.61)c	n/a		
	Ⓐ adjusted	4.91c	4.00c	**23%**[2]		
Free cash flow	Ⓐ adjusted	**$78m**[2]	$71m	10%		
Ⓐ Return on capital employed (ROCE)		**39%**[2]	33%	600bps		

- Organic revenue growth of 1% on a CER basis to $1,457 million (down 1% reported). Continued solid growth of 4% in Industrial Division achieved through market share gains, offsetting 8% decline in Crafts Americas.
- Organic adjusted operating profit up 14% (up 13% reported) through market share gains, cost productivity, controlled overheads and raw material price benefits.
- Adjusted EPS up 23% to 4.91c (reported EPS of 4.28c) with higher operating profit and reduction in tax rate partially offset by unrealised losses on foreign exchange hedges.
- Adjusted free cash flow up 10% to $78 million (2015: $71 million) as net working capital continues to be controlled effectively.
- Return on capital employed increase of 600bps to 39% (2015: 33%) mainly as a result of higher profitability.

Strategic progress

- Acquired Gotex and Fast React; both performing well and ahead of management expectations ($3 million operating profit contribution in 2016).
- Cessation of regulatory action for UK Coats and Brunel pension schemes following settlement, which represents approximately 90% of UK pension liabilities and scheme members.
- Rajiv Sharma became Group CEO on 1 January 2017, previously CEO Industrial Division.
- Announced final dividend of 0.84 US cents per share payable in May 2017, subject to shareholder approval, represents a pro forma full year dividend of 1.25 US cents per share.

Non-financial performance

- Employee engagement score[2] in 2016 of 83% overall favourable – retains position in top 10% of companies globally in the IBM Kenexa survey.
- Recordable accident rate (RAR)[2] in 2016 of 0.38 work related injuries per 100 FTEs per year – largely as a result of the increase in minor injury reporting, our RAR increased in 2016 by 31% but it remains 89% below industry averages.

Ⓐ Alternative Performance Measures – see note 37 on page 146.

COATS AT A GLANCE

COATS IS THE WORLD'S LEADING INDUSTRIAL THREAD MANUFACTURER AND A MAJOR PLAYER IN THE AMERICAS TEXTILE CRAFTS MARKET. HEADQUARTERED IN THE UK, WE EMPLOY SOME 19,000 PEOPLE AND IN 2016 GENERATED REVENUES OF $1.5 BILLION.

INDUSTRIAL

$1,221m
(2015: $1,213m)

Apparel & Footwear
The value adding partner to the global Apparel and Footwear industry

- Threads
- Zips
- Trims
- Technology solutions

Performance Materials
Global experts in the design and supply of high-technology performance materials

Automotive, household and recreation, medical, health and food; safety; telecoms; composites; mechanical rubber goods and other industrial

CRAFTS

$236m
(2015: $260m)

Americas Crafts
Foundation and fashion hand knitting yarns, quilting fabrics and various needlecraft items

Key brands include: Red Heart, Coats & Clark, Dual Duty XP, Anchor, Free Spirit and Cisne

#1 thread supplier

World's leading thread producer for the Apparel and Footwear industries

Technology solutions

Productivity improvements for brands, retailers and partners.

Leading position

In Performance Materials – high performing threads and yarns

Largest player

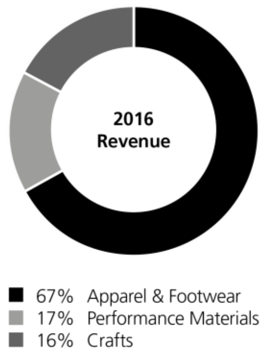
In North America textile crafts market

2016 performance

$1,457m
Ⓐ Revenue up 2%

$158m
Ⓐ Pre-exceptional operating profit up 16%

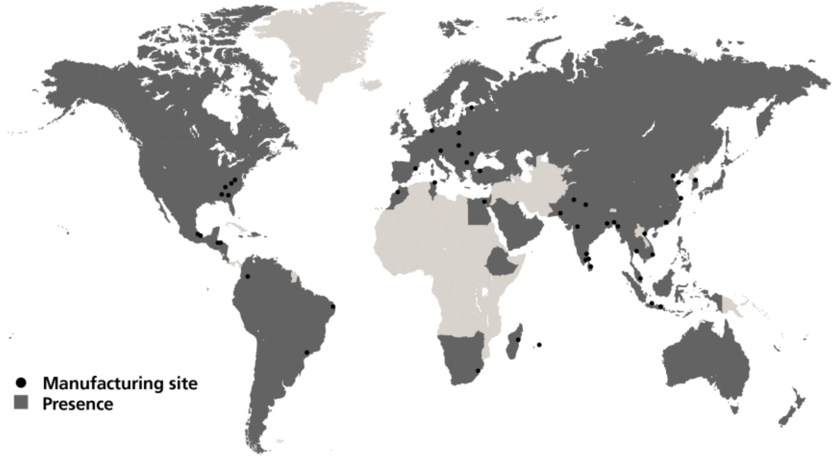
$78m
Ⓐ Adjusted free cash flow



Global footprint

Our sales presence in over 100 countries and digital platforms enable us to serve customers wherever they are located.

With employees across six continents, and some 50 manufacturing sites, we have an unrivalled, global manufacturing footprint.



Revenue by region	Americas 34%	EMEA 17%	Asia 49%

For more go online **www.coats.com/aboutus**

Ⓐ Alternative Performance Measures – see note 37 on page 146.

OUR INVESTMENT CASE

There are five elements to our investment case – each element is a strength in itself but, together, they combine to set us apart from our competitors, giving us a solid platform from which to innovate and grow.

During 2016 we reviewed each element of our investment case and looked to align these more closely to the future core operations of our key business segments following the reported business changes in recent years such as the disposal of EMEA Crafts.

Element	Which provides us as an organisation with:	Key attributes of this element	Highlights in 2016	For more information
1. Global market leader in Apparel and Footwear (A&F) thread	A strong and defendable core business	Global leader in A&F market Increasing market share in stable market Leading the response to meet changing industry needs	Market share growth Acceleration of eComm adoption Successful integration of bolt-on acquisition Fast React Strong Corporate Responsibility credentials	• Market trends • Business model • Strategy • Corporate Responsibility • Operating Review
2. Leading player in Performance Materials market	Opportunity to grow in fragmented, high growth market	Performance Materials operates in a high value market that typically grows above GDP rates Leverage core global capabilities to differentiate our offer Developing new competencies and technologies	Successful integration of bolt-on acquisition of Gotex Geographic expansion across areas such as automotive New product development in areas such as carbon composites	• Market trends • Business model • Strategy • Operating review
3. Refocused Americas Crafts business	Major player in the Americas textile crafts market	Market leading brands in North and Latin America Deep customer relationships with North American retailers	Continued strong cash delivery Controlled costs to protect margins New product launches eComm adoption	• Market trends • Business model • Strategy • Operating review
4. Delivering self-help initiatives	Focused improvement programmes and experienced management to deliver margin and financial improvements	Manufacturing productivity gains Procurement initiatives Overhead reduction programme	Delivering year on year productivity and procurement gains Ongoing tight cost control of overheads to support growth plans	• Operating review • People • Financial review
5. Track record of delivering free cash flow	Strong cash flow generation and high returns on capital employed	Used for funding organic growth, pension schemes, bolt on acquisitions and shareholder dividends Increased ROCE over recent years	(A) Free cash flow generation of $78 million (A) Increased ROCE up 600 bps to 39%	• Key Performance Indicators • Financial Review

For more go online **www.coats.com/investors/investmentcase**

(A) Alternative Performance Measures – see note 37 on page 146.

CHAIRMAN'S STATEMENT

Mike Clasper
Chairman

'THE ROLE OF THE BOARD IS TO ACT AS CUSTODIANS OF SHAREHOLDER VALUE FOR THE LONG TERM'

Dear Shareholder
The past year has been one of significant change; a year in which international events presented the business world with new challenges and opportunities. For Coats 2016 was the year in which we evolved more fully into our new role, delisting from the Australian and New Zealand stock exchanges and making key Board and Group changes so that we can approach the coming year in the best possible shape.

Governance

Paul Forman, our Chief Executive for seven years, stood down on 31 December 2016 and was succeeded by Rajiv Sharma, an Executive Director and previously Global CEO, Industrial.

I would like to take this opportunity to thank Paul for his outstanding contribution as Chief Executive. Paul oversaw our rationalisation from being one of many diverse investments of holding company, Guinness Peat Group, to our successful standalone status as a listed entity. He forged our growth through acquisitions, and instigated and delivered a clear vision and corporate strategy to position the business as an innovative and global industry leader. We will miss his trademark energy and dynamism, and wish him success in his new role.

Paul and I have worked closely with the Board to ensure as smooth a transition as possible and considered both internal and external candidates for his successor. The Board decided that Rajiv was the best candidate, given his global experience and multi-disciplinary expertise, and his track record in profitable sales growth. He formally took over from Paul on 1 January 2017.

We would also like to welcome our new Chief Financial Officer (CFO), Simon Boddie, who has been in place since the beginning of July, following Richard Howes' departure in April 2016. Our search for a suitable CFO led us to Simon, who brings with him 30 years of financial expertise in international operations, emerging markets and digital, as well as demonstrable FTSE 250 experience.

In October, we welcomed Non-Executive Director, Frances Philip. Fran has relationships with major retailers and brands, and her skills and experience will add weight to our aim of becoming the leading value added partner to the apparel, footwear and accessories industries.

The role of the Board is to act as custodians of shareholder value for the long term and, with these Board changes, I am confident that we now have a well-balanced Board that, in terms of good governance, is functioning very effectively – setting Coats' purpose and strategic direction, and overseeing the reinforcement of the appropriate culture throughout the Group.

Pensions

I am very happy to report that we reached settlement with the Trustees of the Coats UK and Brunel pension schemes, which represents approximately 90% of Coats' UK pension liabilities and scheme members.

In February 2017, we announced that the Company had signed binding settlement agreements with the Trustees of the UK Coats Pension Plan and Brunel Holdings Pension Scheme. This has now completed and the Company has received written assurances from the UK Pensions Regulator (TPR) that its regulatory action has ceased in relation to these two schemes under the Warning Notices that it issued to the Company in 2013 and 2014. The Trustees of the Staveley Scheme have not to date accepted the Company's proposal regarding that scheme and currently the UK Pension Regulator's investigation in connection with that scheme remains open. The proposal remains open to the Trustees of the Staveley Scheme and the parent group cash will be used for this purpose.

Further details of the settlement can be found in the Financial review on page 28.

CHAIRMAN'S STATEMENT CONTINUED

'It is our intention to pursue a progressive dividend policy'

Dividend

Following the pensions settlement agreement and the cessation of regulatory action by TPR related to those schemes, we have recommended a final dividend of 0.84 US cents per share for the full year 2016, representing a pro-forma full year dividend of 1.25 US cents per share. It is our intention to pursue a progressive dividend policy.

Performance in 2016

Coats delivered a strong performance in 2016 with organic revenue growth of 1% on a CER basis Ⓐ and organic operating profit growth of 14% Ⓐ despite challenging market conditions. We continued to take market share in Industrial, and introduced new and innovative products. Rajiv will be providing greater detail on our performance throughout the year in his inaugural Chief Executive statement on the next page.

Personal highlights

The year has had many standout moments and our core business has benefited from a tripartite focus on brands, digital and responsible conduct.

Our brands are the core of our business; they showcase our latest innovations and market our relevance to end users and industry alike. In Apparel & Footwear (A&F), our premium apparel thread brand, Epic, continued to deliver sales and market share growth. In an industry first, we can now offer it in a water resistant range that is free from PFC chemical compounds – providing customers with strong sustainability credentials without compromising on performance; while in Performance Materials, our new composites brand, Synergex, launched when it was used as a wheel arch in a high performance sports car.

In an increasingly digital world, we have been employing technology to operate 'smarter', rationalising key business areas so that we are faster and more efficient, and making it easier for our customers to work with us. In A&F, for example, we continued to drive customer adoption of eCommerce across all our key markets, while in procurement we are now a using a new workflow tool for price change management to drive efficiencies.

We have also been working on the relationship side of procurement, running best practice workshops with suppliers and developing a Supplier Code – a set of standards and values which describe our expectations of suppliers in terms of labour practices, environmental management, responsible sourcing and business conduct.

Finally, we achieved another significant collaboration in May, when we joined the Zero Discharge of Hazardous Chemicals (ZDHC) Programme. This industry-led alliance – which is a good fit with our existing Corporate Responsibility ethos – aims to protect consumers, workers and the environment by implementing sustainable chemistry and best practices throughout the textile and footwear industries.

'This year's strategic changes at both Board and Group level – backed up by the dedication of our employees – means we are facing the future with renewed vigour and confidence'

People

Our employees are the driving force behind all our successes and once again they showed their commitment to the company in this year's employee engagement survey. In total, 97% of our workforce took part, showing an engagement score of 83% (this indicates how proud people are to work at Coats and how willing they are to work toward achieving common goals). This maintains our position in the top 10% of companies globally for the third year running and is a great source of pride to us.

During 2016, health and safety figures showed that reporting of incidents at work was slightly up on the previous year, although the severity of those incidents was not as serious. However, we remain vigilant in our monitoring of health and safety, which must always be a priority in an industry such as ours.

Looking ahead

World events contrived to create an atmosphere of uncertainty in the business world in 2016, but it was also the year in which we developed our identity as a listed company and further defined our business strategy. Coats draws upon a long and proud history, and this year's strategic changes at both Board and Group level – backed up by the dedication of our employees – means we are facing the future with renewed vigour and confidence.

Mike Clasper
Chairman

9 March 2017

Ⓐ Alternative Performance Measures – see note 37 on page 146.

GROUP CHIEF EXECUTIVE'S STATEMENT

Rajiv Sharma
Group Chief Executive

'I AM EXCITED TO BE TAKING ON THIS NEW ROLE, GUIDING COATS AS WE MOVE FROM AN INDUSTRIAL TO A DIGITAL AGE'

Dear Shareholder
I am pleased to present this Annual Report, my first as Group Chief Executive. To begin, I would like to thank Paul Forman, from whom I took over on 1 January 2017. I've had the pleasure of working with Paul to transform Coats into a growth company and we now have a solid foundation to take us forward.

I am excited to be taking on this new role, guiding Coats as we move from an industrial to a digital age. The big opportunity in front of us as an organisation is how can we best serve our customers in an era of hyper digital connectivity and 24/7 online presence. The need for speed and service is greater than ever. The statement on the cover of this document – 'Harnessing talent and technology in textiles' outlines our intent. We will continue to provide value – not just as a supplier of premium thread, yarns and zips – but as a thought leader in the industry applying talent and technology to solve customer problems. Manufacturing will always be at the heart of what we do, but increasingly our innovation, digital, commercial and consulting capabilities give us a critical edge. We will apply our industry insight and global expertise to connect with customers across the globe and to enhance their lives. I will return to these themes in more detail later.

'Share gains and self-help initiatives enabled strong results in a tough market'

2016 performance
Coats generated revenues of $1,457 million in 2016, a 2% CER underlying growth on 2015 ($1,432 million) Ⓐ. Industrial sales grew 4% driven by share gains in Apparel and Footwear, product innovation, geographic expansion in Performance Materials (previously Speciality), along with the impact of bolt-on acquisitions. Organic sales growth in the Industrial Division of 2% was marginally behind the 3% growth reported in H1 as mixed demand from clothing retailers and manufacturers in US consumer durable markets continued throughout the later part of the year. Crafts sales fell 8% due to a sharp contraction in the US handknitting market predominantly caused by a mild North American winter, although this contraction slowed in the latter part of 2016 (H2 decline 4%).

Group adjusted operating profit increased 16% to $158 million (2015: $136 million) Ⓐ, although this was a lower growth rate than the strong performance delivered in H1 of 24%. Industrial full year adjusted operating profit grew 18% and margins were up 160 basis points (bps) to 12.7% due to volume growth, lower raw material prices, productivity and procurement improvements, and tight cost control. Excluding acquisitions, Industrial adjusted operating profit grew by 16%.

For more details, see Operational and Financial reviews on pages 26 to 31.

Strategic progress
In June 2016, we announced the acquisitions of Gotex and Fast React Systems for initial consideration of $28 million and $7 million, respectively.

Gotex designs and manufactures high-tech industrial yarns and tapes to protect, reinforce and insulate cables and pipes in the telecommunications, energy and oil and gas sectors. Its market-leading fibreglass technology and products complement Coats' fibre optic product range, while Coats will support Gotex in further expanding into high-growth markets.

'Both Gotex and Fast React are performing strongly – ahead of management expectations'

Fast React provides software solutions and expertise to A&F manufacturers and retailers, enabling Coats Global Services to offer an even wider range of operational improvement tools to customers. This follows our acquisition of GSD in 2015, which has more than doubled like for like sales in 2016 (when compared to the eight months of post-acquisition ownership in 2015).

Both Gotex and Fast React are performing strongly – ahead of management expectations – having delivered $3 million of operating profit in the year since acquisition, achieved by leveraging Coats' global reach and strong customer relationships.

GROUP CHIEF EXECUTIVE'S STATEMENT CONTINUED

'Customer experience, digital, simplification, innovation, service, talent and technology will enable future success'

'In both Footwear and Performance Materials, we are "moving beyond the stitch line"'

Ⓐ Alternative Performance Measures – see note 37 on page 146.

Key strategic themes

Our goals as an organisation are to ensure profitable sales growth, to increase productivity, and to deliver value. In doing so we must always focus on our three primary stakeholders – our customers, our shareholders and our employees. Our customers are looking for unique products, services and digital solutions, while value for shareholders requires a strategic balance of growth and efficiency, resulting in sustainable and high quality earnings. For our employees, we must provide an environment that offers them growth to reach their maximum potential within a safe, respectful and inclusive workplace.

Integrating these imperatives with our priorities as a business – customer experience; digital; talent; innovation; and simplification – has given us a clear path forward. Coats will develop capabilities in data science, mathematical modelling and simulation to foster higher quality decisions and actions. We will build on our success in digital by providing superior customer experience. Our digital channels are helping us to win customers, increase agility and reduce costs:

- our online thread availability system eComm has been incorporated into our main 25 markets and for 12,000 of our customers, representing some 70% of total thread orders;
- we now offer a fully digitised colour supply chain that digitises the customer's sample request at its location and transmits directly to our laboratories in real time;
- Redheart.com is the biggest hand knitting inspiration and ideas portal in the US, with over 4.6 million knitting projects being downloaded in 2016; and
- we have moved to SAP's latest version, HANA, and are the first company to host this on Microsoft Cloud (Azure). Over 90% of our applications are now hosted on the cloud.

In both Footwear and Performance Materials we are 'moving beyond the stitch line', with a number of Footwear-related projects that explore the potential of engineered yarns, and the globalisation of Performance Materials with bolt-on acquisitions and a move into exciting areas such as composites and mechanical rubber goods. This follows our recent acquisitions of both Fast React and GSD, giving us the means to provide the apparel industry with the cutting-edge operational improvement tools it will need to thrive.

At an operational level, I firmly believe the key enablers for the organisation are simplification, efficiency, innovation, service and technology. Integrating these into the business will be critical and, to this end, we have already made the following changes:

- Speciality was renamed 'Performance Materials' – to better reflect the present and future state of this growth area of the business;
- three senior management teams are streamlined into one Group Executive Team (GET) – enabling better alignment, faster decisions and more agility; and
- our Technology and Digital teams have been merged to drive faster results delivery at lower costs.

For more details see, Strategy on pages on 12 to 13 and the GET biographies on page 35.

Outlook

We enter 2017 on a solid footing however remain cautious about market conditions. We expect to continue to deliver growth in line with management's expectations through our initiatives to deliver market share gains, productivity improvements and tight cost control. This growth is likely to be weighted to the second half of the year due to strong profit growth in H1 2016, and may also be subject to further foreign exchange headwinds on translation that have been seen in recent periods. We will also continue to focus on cash flow generation in order to allow us to continue to reinvest in organic and inorganic growth opportunities

Rajiv Sharma
Group Chief Executive

9 March 2017

MARKET TRENDS

For more on our market environment go online **www.coats.com/investors**

What markets do we serve?

Apparel and Footwear (A&F)

Thread is a critical component to the performance of a garment and, as the world's leader in A&F thread, we are a key supplier to the $1.5 trillion global apparel and c.$350 billion footwear industries. Coats estimates that the global thread market is c.$4 billion in size. We are also a major global supplier of zips and provide consulting and software services to those industries.

Performance Materials

We are a leading player in manufacturing high performance technical threads and yarn used in a range of industries which include automotive, household and recreation, medical, health and food, safety, telecoms, composites, mechanical rubber goods and other industrial. We estimate the addressable market (i.e. that into which we currently or could realistically serve in the near term) is c.$1.8 billion in size.

Crafts America

Our Crafts business is a market leader in the c.$1.8 billion Americas textile crafting industry, which we categorise into two segments: handknitting yarns and needlecrafts, which includes consumer thread and zips and fabrics.

Trends that are impacting our businesses:

1. Growth of the urban middle class in Asia

Globally, the Apparel and Footwear thread market is expected to grow by 2% per year over the medium term, but this will be double in Asia as – not only will more consumers demand more garments – but more affluent consumers will demand higher-end garments. Currently the majority of our thread ends up in garments sold in North America and Europe; however, we expect that regional sales from our many factories in Asia will increase over time.

Demand for Performance Materials threads and yarns is increasing due to the pace of urbanisation (for example, the rollout of fibre optic cable networks) and economic growth, which means consumers purchase more products with high performance thread (for example, leisure goods, cars with airbags).

2. Speed to market

The rise of fast fashion, which has dramatically reduced the time between catwalk to high street, and consumers demanding more than just the traditional two season cycle has put tremendous pressure on the full garment supply chain. Not only do all participants need to act faster, to respond to shorter lead times, they need to act smarter also focusing on productivity.

Our global asset footprint means we are uniquely placed, across the entire component supply chain, to manufacture and distribute consistently high quality products to service retailers' multi-location sourcing strategies. We also have the digital tools such as our web-based service Coats Colour Express, the fastest thread sampling service in the world.

We also support garment manufacturers to become more productive. Our technology solutions consulting offering includes time benchmarking tools and production planning systems both of which will improve speed to market.

3. Innovative uses of threads and soft material

Consumers are demanding more innovative products in every area of their lives. We are at the forefront of innovating smart thread and yarns to enhance the functionality or performance of many products in multiple end markets. This is a core competency in our Performance Materials business in which we have developed and grown sales in many new products such as flame retardant threads used in protective wear and water swellable threads that protect deep water fibre optic cables.

MARKET TRENDS CONTINUED

We are also developing new high-tech applications such as carbon composite shapes made from commingled nylon and carbon fibre. However, it's not just in Performance Materials. Within A&F we have developed Signal HD, a retro reflective thread that, when illuminated by light, helps to enhance visibility at night-time, and we are leading the way with conductive threads which can be used in wearable technology. In Crafts we have developed insulating handknitting yarns that can be used for winter gloves, hats and scarfs.

Our scale is a benefit and allows us to continually invest in new technologies; we have leading innovative brands; and we can leverage our global, world class A&F asset base to develop centres of excellence in key growth markets; as the market leader we are in a position to use bolt-on acquisitions to access new geographies and adjacent end-markets. This is supported by our customer relationships, globally and across all levels of their organisation – often it is these 'innovation conversations' that help us come up with technological breakthroughs.

4. Increasing compliance and ethical standards

Consumers, authorities, brands/retailer and manufacturers are all becoming increasingly focused on operating in a compliant and ethical way. Be it environmental, labour or sourcing, the entire supply chain is coming under pressure not just to conform to local requirements but also to higher international standards as well. This goes to the heart of Coats values and standards. We behave responsibly wherever we operate. Ethical business practice is core to the way we do business and as such our Corporate Responsibility (CR) programme is integrated with our business strategy and helps us build and maintain both our reputation and our relationships with key stakeholders.

We regularly review the most relevant social, ethical, environmental and governance issues to Coats by using a range of benchmarks and consider the interests of our peers and key stakeholders, especially our employees, brands and our customers. 53 issues were highlighted during the last review. We then rank the most important of these and ensure we have established relevant policies and programmes to manage our impacts. For instance, our single biggest internal investment in the last two years has been on upgrading effluent treatment plants across many of our sites so we can reuse more and discharge cleaner water. We also have services to provide our customers to help them increase their compliance, such as Fast React's Evolve – production planning software that negates the need for excessive overtime and unethical sub-contracting.

5. Increasing adoption of digital services

Across society digital technology is playing an ever increasing role in everyday life. This is no different in the industries in which we operate and serve. To ensure we remain and increase our relevance to our customers we believe we need to be more than just the supplier of the best product; we need to provide value adding services that makes their lives easier.

As such we have been at the forefront of digital innovation of component suppliers to the global garment industry for several years. We introduced Coats Colour Express, the fastest thread sampling service in the world, in 2012 and Opti Express, a revolutionary zip sampling service, in 2015 – both of which are being increasingly used by our customers.

In 2015 we launched Coats eComm, our state-of-the-art tool for customers to place thread sample and bulk orders, track their status and check stock availability. We are now live in our main 25 markets, with over 12,000 customers using the service on a regular basis and some 70% of all thread orders are now being placed on the system. We are extending the offer into new markets and introducing online payment options to make it even more easier for customers to do business with us.

In Performance Materials we recently launched a highly successful micro site and social selling campaign targeted at key customers in the automotive industry. While in Crafts we have Redheart.com, the most popular crafting website in the USA to which more than 18 million crafters have come for inspiration.

BUSINESS MODEL

For an interactive version of our business model go online: **www.coats.com/investors**

Our business model

Goals and culture

Financial strength | Risk management | Corporate Responsibility | Health and Safety

Our resources — Our skills — Our products and services — Our outputs

How Coats creates value

Our vision is to become the world leader in value adding engineered yarns and threads for industrial and consumer use, and our business model provides us with the framework to effectively design, manufacture, market and deliver high quality products and digital services.

Our financial strength, resilience and ability to generate free cash flow provides us with the capacity to undertake well-considered, valuable investment into our products, services and people, to better meet our customers' needs and further our success and brand reputation.

While having the right products and services is critical, what is fundamental to our success is our reputation. This ensures the trust and confidence of our stakeholders and therefore our ability to create ongoing value. Three elements are pivotal to maintaining and further strengthening our reputation; our commitment to operating responsibly; our principles which guide our behaviours; and the effective and efficient management of risk. These components underpin our overall approach and impact every decision we make as they help to safe-guard our reputation.

Our resources: 'Core strengths'

Global asset base – we manufacture at some 50 sites, on six continents, with 100+ warehouses that are all connected by a global ERP system; this ensures we are uniquely positioned to service the global apparel and footwear industry on a short lead time basis.

Customer relationships – we work with nearly 30,000 apparel and footwear manufacturers and c.4,000 retailers and brands globally. These strong relationships, across all levels of our customers' organisation provides us with deep market insight.

People – our diverse international workforce of some 19,000 is both highly engaged and committed, with an employee engagement score of 83% in 2016 (puts us in top 10% of all companies globally).

Suppliers – we have a diverse and global supplier base of raw materials (predominantly polyester and nylon), intermediates (grey thread and bought-in Crafts products) and other materials (cones and chemicals).

Corporate Responsibility – we have strong credentials amongst all component suppliers to the global garment industry; this helps us build and maintain both our reputation and our relationships with key stakeholders.

Our skills: 'Operational and commercial expertise'

Manufacturing – we are able to service our customers with a globally consistent quality and colour that has been manufactured to high employment, ethical and environmental standards.

Technical – we use our expertise to support our customers by making numerous technical interventions on the shop floor every year.

Digital – by offering the most comprehensive set of services in the industry; from colour sampling to online training and ecommerce, this makes it easier to do business with us and offers greater value and time benefits to customers. One example is the recently launched online business in Western Europe, building on the success of our eComm service.

BUSINESS MODEL CONTINUED

Ⓐ Alternative Performance Measures – see note 37 on page 146.

Our skills: 'Operational and commercial expertise' (continued)

New product / process innovation – through our virtual global network we are always seeking to innovate in the industries in which we operate. Our small, core R&D team works with customers to understand their needs, with support from academic institutions and specialist companies.

Sales and marketing – through our Global Accounts programme we have close interactions with the world's leading global retailers. In Americas Crafts we work closely with our main customers – for the fifth consecutive year, we are a Category Captain at Walmart, helping to manage their entire textile crafting offer.

Our products and services: 'Value enhancing products and services'

Products

Apparel and Footwear – we are the world's leading manufacturer and supplier of a range of industrial sewing threads, with leading products such as Epic (fashion apparel), Dual Duty (denim) and Nylbond (footwear); under the Opti brand we are a major global manufacturer of metal, plastic and spiral zippers; and also offer a growing range of other trim products to the global garment industry, such as tapes and hook and loop. Our products are sold to thousands of apparel and footwear manufacturers around the world and we work with brands and retailers who often specify or nominate Coats products in manufacturers' bill of materials.

Performance Materials – we produce multiple innovative threads and yarns for non-apparel and footwear uses and sell directly to global original equipment manufacturers ('OEMs'). End-markets include household and recreation, healthcare (medical sutures), automotive (airbag thread), telecoms (coated fibreglass to provide strength to fibre optic cables), oil and gas (flame retardant thread for protective clothing) and composites (thread commingled with carbon that is pressed into carbon fibre shapes).

Americas Crafts – we manufacture the leading, and award winning, handknitting yarn in North America (Red Heart), the leading yarn in Latin America (Cisne), a limited range of needlecraft products (such as consumer thread and zips) and lifestyle fabrics through our Free Spirit brand. In North America we sell to a handful of major retailers (and to lesser extent directly to consumers through Redheart.com); in Latin America we sell to a mix of major retailers, independent stores and distributors.

Services

Apparel and Footwear – through the acquisitions of GSD and Fast React, we offer industry leading consultancy, tools (e.g. cost benchmarking) and software to garment manufacturers and brands/retailers to increase their productivity and reduce costs.

Our outputs: 'Benefits for stakeholders'

Profitability – by increasing our market share, operational gearing, productivity and procurement gains and controlling overheads, we are working hard to offset structural labour and energy inflation. Operating profits reflect this and have delivered a double digit CAGR % growth increase between 2014–16.

Returns on capital – by increasing profitability and disciplined capital management, both fixed assets and working capital, we have seen our returns on capital – measured as ROCE – increase from 24% in 2014 to 39% in 2016 Ⓐ.

Cash generation – by ensuring a track record of delivering good levels of adjusted free cash flow, $237 million cumulatively between 2014–16 Ⓐ, this allows us to reinvest in organic growth, make pensions repair payments, self-finance bolt-on acquisitions and pay dividends to shareholders.

OUR STRATEGY

Our three strategic goals help and support us in achieving our vision of becoming the world leader in value adding engineered yarns and threads for industrial and consumer use. They are closely aligned to the elements of our investment case and business model to ensure delivery of value for all shareholders.

Strategic goals

1. Profitable Sales Growth	Performance in 2016	Key metric
For Apparel and Footwear this means: Ensuring we constantly develop our leading brands, strong market positions and customer relationships. Responding to customer demands to make us easier, simpler and faster to do business with. Being able to offer operational excellence tools, software and advice that is relevant to the global A&F industry. Having strong corporate responsibility credentials that are aligned to requirements of major global brands.	Leading product portfolios and relationships with leading brands – increased A&F sales of 3%, led in part by enhancing Epic and Astra brand portfolio and continuing success of our Global Accounts programme. Digital sales model – deeper integration of eComm in our 25 main markets, 12,000 customers, over 70% of total orders. Further enhanced by launch of new online business in Western Europe. Consultancy growth through acquisition of Fast React Systems, UK based provider of global consultancy services for $7 million. Ongoing capital expenditure to ensure safe, respectful and inclusive workplaces, minimising environmental impact, achieving strong environmental credentials.	• KPI: Revenue growth • KPI: Pre-exceptional operating profit • KPI: Adjusted EPS • Industrial margin
For Performance Materials this means: Leveraging our core capabilities in 'clever thin lines' to differentiate our offer from other players. Continually delivering new and relevant products, developing new competencies and technologies either in house, via partners or acquisition. Ensuring our global asset base delivers the benefits of a local manufacturing presence and technical excellence within a global supply chain. Continually building deeper relationships with global customers and brands.	Gotex – $28 million acquisition of market and technological leader in the field of telecoms, oil and gas and energy. Geographic expansion possible via wider synergies with Coats. Coats Synergex – developed a carbon composite 100% fibre based product. Used expertise of unique commingling technology to deliver new range. Automotive range of threads – global campaign supported geographic expansion – delivered double digit growth in key regions.	• KPI: Revenue Growth • KPI: Pre-exceptional operating profit • KPI: Adjusted EPS • Industrial margin
For Crafts this means: Having consumer brands that are relevant to the consumer and retain strong market positions. Our Red Heart, Coats thread and Cisne brands are #1 or #2 in their respective handknitting and needlecrafting categories. Ensuring we have deep customer relationships based around focused channel and product portfolios. • In North America, where we serve a small number of major retailers such as Walmart, JoAnns, and Michaels through dedicated key account teams. • In Latin America there is a wider base of customers but we are seeing that consolidation by major chains is taking place across the region.	Category captain at Walmart for the fifth consecutive year and we continue to remain the only textile crafting company that is part of their joint business planning process. For the third consecutive year Red Heart was voted by the Women's Choice organisation their 'Yarn brand of the year'.	• KPI: Revenue Growth • KPI: Pre-exceptional operating profit • KPI: Adjusted EPS • Crafts margin

OUR STRATEGY CONTINUED

2. Increased productivity	Performance in 2016	Key metric
For us as a Company this means: Continually looking at initiatives to make savings in the areas of **productivity**, **procurement** and **SD&A**. These include expanding our network of Lean and Six Sigma experts, reducing electricity, fossil fuel and water consumption and increasing sales and productivity per employee. These initiatives help to offset factors such as structural labour and energy inflation and support operating margins. Meeting management's commitment to generate consistent and strong free cash flow every year. This is required to meet intended uses such as funding organic growth, pension recovery payments, bolt on acquisitions and dividend policy.	Delivered improved operating margins of 10.8% Ⓐ (2015: 9.5%). Track record of delivering manufacturing productivity and non-raw material sourcing gains: $10–15m pa (2013–16). Energy consumption down 3% and water usage down 3%. Overhead reduction programme announced following the disposal of EMEA Crafts continued in 2016 and is delivering as per expectations. Double digit point increase in ROCE in two years driven by higher profitability and controlled capital employed.	• KPI: ROCE • KPI: Adjusted FCF • KPI: Pre-exceptional operating profit • KPI: Adjusted EPS

3. Value delivery	Performance in 2016	Key metric
For us as a Company this means: We will add **superior value to our customers** through our offer of unique product, services and digital solutions; We will **drive shareholder value** through the successful implementation of our strategy – balancing our growth and efficiency agenda; We will **deliver a value proposition to our employees** where people can develop to their fullest potential within a safe, respectful and inclusive workplace. .	Customers – delivered share gain and new market growth across all aspects of our offer – for example in A&F an industry first with launch of PFC-free anti wick products. In Performance Materials we were appointed the preferred supplier for electrical harnesses by a global manufacturer and continued growth in automotive offer. Shareholders – earnings and cash growth, and initiation of shareholder dividend. Employees – benchmark workplace culture and our employee engagement score in 2016 of 83% retains our place in the top 10% of all global companies surveyed by IBM Kenexa.	• Market share • Total Shareholder Return • KPI: Employee Engagement • KPI: Health and Safety

KEY PERFORMANCE INDICATORS

OUR KEY PERFORMANCE INDICATORS (KPIs) HAVE BEEN CHOSEN BY THE BOARD TO MEASURE THE GROUP'S PROGRESS, DEVELOPMENT AND ONGOING PERFORMANCE

These non-GAAP measures are set out below. For further details of how these financial Alternative Performance Measures are reconciled to the nearest corresponding statutory measure see note 37 on page 146.

KPI	Definition	Why we measure this	Performance 2014	2015	**2016**	2016 commentary
Revenue growth[1]	Annual organic growth in sales at like-for-like exchange rates.	Measures the ability of the Company to grow sales by operating in selected geographies and segments and offering differentiated, cost competitive products and services.	3%	3%	**1%**	Strong performance in A&F business, driven largely by volumes given a challenging pricing environment, and product innovation and geographic expansion in Performance Materials business. Partially offset by Crafts sales decline in year.
Pre-exceptional operating profit growth[2]	Annual organic growth in operating profit, adjusted for exceptional items, at like-for-like exchange rates.	Measures the underlying profitability progression of the Company.	0%	19%	**14%**	Strong volume growth, lower raw material input prices, productivity and non-raw material procurement improvements in Industrial, and cost reduction initiatives in Crafts.
Adjusted earnings per share growth[3]	Annual growth in reported EPS from continuing activities, excluding exceptional charges and foreign exchange movements on parent group cash balances.	Measures the underlying progression of the benefits generated for shareholders.	73%	29%	**23%**	EPS growth in 2016 at reported exchange rates was driven by higher operating profit and a reduction in the underlying tax rate.
Adjusted free cash flow[4]	Cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, purchase of own shares by the Employee Benefit Trust and UK pension recovery payments.	Measures the Company's underlying cash generation that is available to service capital demands.	$88m	$71m	**$78m**	Generated good level of free cash, higher year-on-year operating profits, along with controlled Net Working Capital.

KEY PERFORMANCE INDICATORS CONTINUED

KPI	Description	Why we measure this	Performance 2014	2015	2016	2016 commentary
Return on capital employed (ROCE)	Pre-exceptional operating profit from continuing operations for the year divided by capital employed (property, plant and equipment plus net working capital) at year end.	Measures the ability of the Company's assets to deliver returns.	24%	33%	**39%**	Higher profitability and controlled asset base.
Recordable accident rate (RAR)	Number of work-related injuries and illnesses per 100 Full Time Employees per year that are considered recordable by the US Occupational Safety and Health Administration ('OSHA').	Measures the performance of the Company in delivering a safe and healthy working environment for employees.	0.33	0.29	**0.38**	Largely as a result of the increase in minor injury reporting, our RAR increased in 2016 by 31% but it remains 89% below industry averages and our overall lost time due to accidents decreased by 35%. This means that the lost time per accident reduced by 49%, indicating a significant reduction in the severity of accidents.
Employee engagement score	Annual global survey with results benchmarked by IBM Kenexa, a leading specialist survey organisation.	Measures the Company's performance in delivering an effective and efficient work place culture and how proud and willing people are to work towards achieving common goals.	81%	83%	**83%**	We continued to benchmark our workplace culture, and assess how people feel about working at Coats. Identified areas that need attention and implemented actions plans to maintain Coats' position in the top 10% of all global companies surveyed by IBM Kenexa.

1 Revenue growth in 2016 excludes contribution from acquisitions made during the period, and excludes discontinued UK Crafts business. Revenue growth in 2014 and 2015 excludes EMEA Crafts (disposed of in 2015).

2 Pre-exceptional operating profit growth in 2016 excludes contribution from acquisitions made during the period, and excludes discontinued UK Crafts business. Pre-exceptional operating growth in 2014 and 2015 excludes EMEA Crafts (disposed of in 2015).

3 Adjusted EPS growth in 2016 excludes discontinued UK Crafts business.

4 Adjusted Free Cash Flow in 2015 and 2016 excludes discontinued UK Crafts business. 2014 and 2015 excludes EMEA Crafts (disposed of in 2015).

PEOPLE

For more details go online:
www.coats.com/cr/people

TO DELIVER OUR BUSINESS STRATEGY, BOTH NOW AND IN THE FUTURE, WE MUST BE ABLE TO ATTRACT, RETAIN AND MOTIVATE EMPLOYEES WITH THE NECESSARY SKILLS AND TALENT ACROSS THE GROUP

We employ some 19,000 people across more than 60 countries, and we all share the responsibility for developing and maintaining a working environment that we can be proud of. The foundations of this lie in everyone acting with honesty, integrity and fairness and speaking up if they feel this is not happening.

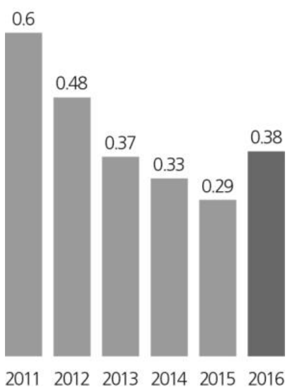
As a Company we are also committed to maintaining high standards of employee safety and engaging with our workforce on issues that matter to them. To demonstrate this, we have formally adopted our annual recordable accident rate and employee engagement score as two non-financial Key Performance Indicators for the Group.

Keeping our people safe
Maintaining high standards of Health and Safety (H&S) is our number one priority. This year we ran several global campaigns to reinforce the importance that we place on keeping our people safe and to encourage our teams to improve their performance.

Our new Safety Leadership Essentials programme promotes a positive, proactive safety culture across the business and helps increase the understanding of our H&S management system. This training programme was developed and introduced in the US during 2016 and is now being rolled out globally.

To keep track of how we are doing, we continuously monitor the safety performance across all our sites. Each location is targeted to reduce recordable accident rates and improve their annual H&S audit scores. All employees are encouraged to report safety incidents, no matter how minor, so that we can learn from them and improve. The number of minor incidents being reported this year, e.g. cuts and bruises, has increased. Largely as a result of the increase in minor injury reporting, our RAR increased in 2016 by 31%.

Recordable accident rate
(Number of injuries per 100 FTEs per year)



Nevertheless it remains 89% lower than the latest US OSHA data for textile mills of 3.4[1]. Furthermore, the severity of our recordable incidents has reduced, with 35% less lost time due to injuries for 2016, as compared to 2015. The average lost time per accident dropped by 49% during the year, a clear indication of the reduction in severity of the accidents. Hand and finger injuries represent around 50% of our recordable incidents and so in July we launched a coordinated global campaign to encourage our employees to look after their hands.

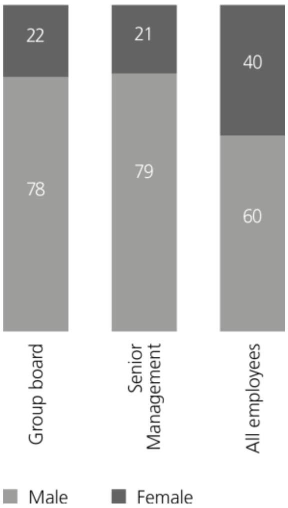
Developing our talent and embracing diversity
Maintaining a skilled and motivated workforce is important to the future of our business and we work hard to build an inclusive culture for all.

Coats global learning and development programmes help our employees realise their full potential. These programmes are designed around multiple interventions targeting all levels, from front-line supervisors through to high potentials. Our award winning Management Capability Development Programme focuses on middle managers and this year a further 200 employees were enrolled in the scheme, bringing the total to over 500 management trainees since its inception. This year also saw the launch of our 'Transcend' leadership programme, targeting the senior leaders of tomorrow.

1 US Occupational Safety and Health Administration 2015 data as published October 2016.

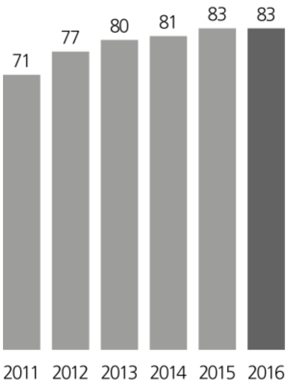
PEOPLE
CONTINUED

Gender diversity[1] (%)



1 Senior management: Coats employees Grade 12 and above, excluding Board Directors.

Employee engagement score (%)



Despite there being over 40 nationalities represented across our senior teams, we still have some way to go to increase the number of women in our leadership team. Our global diversity and inclusion (D&I) programme, launched in 2015, aims to address this. The D&I priorities for 2016 included tracking compliance with our inclusive recruitment guidelines; a focus on talent management and succession planning; unconscious bias training; and supporting local D&I initiatives. The D&I Network, an ideas sharing, leadership and career development forum, is a key part of the programme.

The network held four conference calls during 2016 involving more than 350 employees around the world and ran a global campaign to celebrate International Women's Day.

Working together
At Coats we strive to maintain an engaged workforce, that works well together, upholds our goals and values and contributes to our organisational success. We have developed strong people management and learning and development practices and support talented colleagues to achieve their potential.

To assess how people feel about working at Coats and to identify areas where we can do better, our sixth employee engagement survey was carried out in November. We were pleased to see that our score has been maintained at 83%, the same level as 2015, with over 97% of our workforce taking part. This keeps us in the top 10% of companies surveyed globally by IBM Kenexa.

Upholding human rights
We operate to high ethical business and employment standards across all of our global operations and have zero tolerance towards exploitative employment practices. Our policies and codes of practice make specific reference to human rights and particularly the ban of child labour, slavery, forced or bonded labour both in our own operations and in our supply chain. During 2016 we rolled out our responsible Supplier Code to all of our key suppliers and partners.

This code is published on the Corporate Responsibility section of our website and outlines the social, environmental and ethical standards we expect from all our suppliers and partners. We uphold the aims of the California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015 and have recently published an updated Modern Slavery statement on our websites.

Furthermore, we uphold the UN Guiding Principles on Business and Human Rights and are working to apply them throughout all our operations. Our global policies support the requirements of the UN Declaration of Human Rights and the Convention on the Rights of the Child, the core ILO Conventions, and the OECD Guidelines for Multinational Enterprises.

CORPORATE RESPONSIBILITY

HIGH ETHICAL STANDARDS MAKE GOOD BUSINESS SENSE, THEY CREATE VALUE FOR OUR COMPANY, OUR SHAREHOLDERS AND ULTIMATELY FOR SOCIETY AS A WHOLE

Our business reputation, together with the trust and confidence of the people we do business with, is a core asset and one which we strive to protect.

High ethical standards also make good business sense, they create value for our company, our shareholders and ultimately for society as a whole. Our global presence enables us to build close relationships with our customers wherever they are located, leverage our expertise from around the world and develop local market opportunities. But the diversity and complexity of our operations brings many social and environmental challenges. Some of these are unique to a particular country or location; others apply globally. It is important that we understand these and our impact on society to manage our business responsibly wherever we operate.

Behaving responsibly
The values and standards that we subscribe to as a company are at the core of our Corporate Responsibility (CR) programme. This is led by our Group Chief Executive with the support of the whole executive management team and administered by the Head of CR. These values and standards are embodied in the principles that describe the way we work: energy for change, respectful and inclusive, freedom to operate, openness and honesty and positive teamwork.

For more about our Strategic Themes see the CR section **www.coats.com/cr**

Our seven strategic themes
Our CR activity is encapsulated by seven strategic themes, all of which support and contribute to the achievement of our business goals.

Focusing on what's important
To supplement these themes, we have developed a robust approach to materiality assessment in order to focus on what's important to our business and provide a focus for the future CR programme. We review our materiality analysis on a regular basis, as a minimum every two years. During the 2015 review 53 material issues were highlighted and grouped according to our seven strategic themes.

These are issues of importance both to Coats and our stakeholders and in some cases help us to achieve our company goals. The list to the left illustrates our top ten priorities for which we have established relevant policies and programmes, and have identified actions to manage our impacts. Having said that, our CR programme extends beyond these into all areas that support and contribute to the achievement of our business goals. Our activities are co-ordinated by the Head of CR and monitored by a CR Advisory Group, which is chaired by the Chief Human Resources Officer.

Our top ten material issues
- Economic environment
- Energy consumption
- Emissions and effluents
- Health and Safety
- Labour standards
- Resource scarcity
- Talent attraction and retention
- Transparency and reporting
- Waste generation and recycling
- Water consumption

CORPORATE RESPONSIBILITY CONTINUED

More details can be found at **www.coats.com/cr**

During 2016 we rolled out our global Supplier Code

HIGHLIGHTS AND ACHIEVEMENTS FROM OUR 2016 CORPORATE RESPONSIBILITY PROGRAMME

Our Standards

- We have updated and re-issued our global code of conduct and ethics code.
- All 4,500+ senior employees and those with external facing roles received refresher training during 2016 in ethics, anti-bribery and corruption, and competition policies and laws.

Our People

- Our health, safety and welfare programmes have been successful in keeping our recordable accident rates nearly 89% lower than the latest average reported by OSHA for US textile mills.
- Almost 250 new starters were enrolled on our award-winning Management Capability Development programme, bringing us to a total of over 500 employees currently working their way through the 18-month course.
- Over 7,500 employees now have access to our global D&I network and more than 350 of our employees took part in global D&I initiatives during 2016, and many more in local ones.

Our Products

- Our new Restricted Substances List (RSL) was launched in 2016 and communicated to all our global suppliers. We believe it is the most comprehensive in the industry and incorporates the requirements of all the major internationally recognised environmental standards (e.g. REACH, Oeko-Tex, CPSIA).

Our Manufacturing

- A combination of ongoing efficiency programmes and investment in energy reduction projects and new technology, has resulted in a 3% reduction in the energy consumption per unit of production compared to 2015.
- In 2016, we used 8.2 million cubic metres of water, which equates to 118 litres per kilo of dyed product. This is 3% down from 2015.

Our Environment

- Greenhouse gas (GHG) as measured in kilos per kilo of dyed product went up by 3% in the last year (4.6 kg CO_2e per kg of dyed product compared to 4.5 in 2015). As our processes are ever more energy efficient, this increase in GHGs per unit of dyed product largely results from a shifting balance of production between countries and an increase in in-house electricity generation in Bangladesh due to shortages in grid supply.
- In 2016, the total carbon footprint of our manufacturing operations (Scope 1 and Scope 2) was 319,000 tonnes, an increase of 4% compared to the previous year, reflecting a 2% increase in orders for manufactured goods and the above mentioned increase in our own electricity generation.

Our Partners

- During 2016, we completed the global rollout of our Supplier Code, covering labour practices, environmental management, responsible sourcing of materials and products, and business conduct.
- We carried out over 20 face-to-face supplier engagement workshops across 15 countries, targeting over 80% of our key suppliers.

Our Communities

- Last year our local employees implemented over 130 community engagement plans – an increase of nearly 10% over the previous year. These activities took place in almost 50 different operating units and helped lay the foundations for exciting community projects in the future.

PRINCIPAL RISKS AND UNCERTAINTIES

'THE EFFECTIVE MANAGEMENT OF OUR RISKS AND RELATED OPPORTUNITIES…IS ESSENTIAL IN SMARTLY AND PRUDENTLY ACHIEVING OUR STRATEGIC OBJECTIVES'

Balancing risk and rewards
The effective management of our risks and related opportunities, both financial and non-financial, is essential in smartly and prudently achieving our strategic objectives and creating value for our customers, shareholders and the communities in which we operate. It is also a central element in protecting our employees, enhancing our reputation and demonstrating good corporate governance.

Overview
As a global industrial manufacturer we recognise that risk is inherent within our geographical footprint and activities. The timely identification of risks, combined with their appropriate mitigation and escalation, enables us effectively to run our business and deliver our strategy in the knowledge that the likelihood and/or impact associated with such risks is understood and managed within our risk appetite.

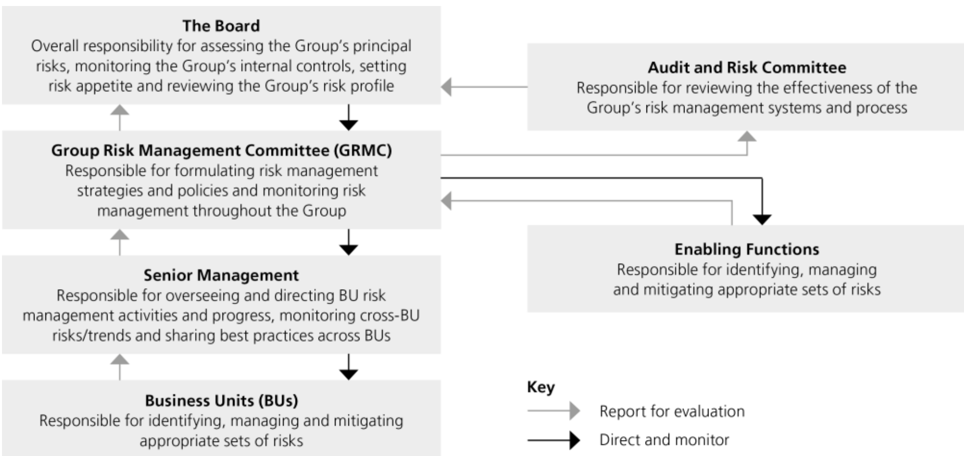
During 2016 we have reinforced our risk management framework and associated processes particularly at the individual business unit and enabling function level – this has resulted in a further strengthening of the 'bottom up' element of how we manage risks and related opportunities throughout the Group.

Governance structure
We operate a formal governance structure to manage risk across the Group – the roles and responsibilities of the main stakeholders involved in this structure are set out below.

Overall responsibility for the reviewing the Group's risk profile and setting risk appetite, as well as assessing the Group's principal risks, rests with the Board but the management of risk using our common risk management framework is embedded throughout our global manufacturing, distribution, sales and other business operations, as well as our enabling functions, with all our employees having an important role to play.

Local business units and enabling functions globally, as well as the Group's senior executive leadership team, regularly review a broad range of individual current strategic and operational risks, as well as conducting broader horizon scanning reviews of emerging and potential such risks.

Through these reviews and their appropriate escalation, the Board receives actionable information and updates which assist it in conducting its own such reviews, monitoring the Group's risk exposure, identifying the principal risks and determining an appropriate level of risk appetite.

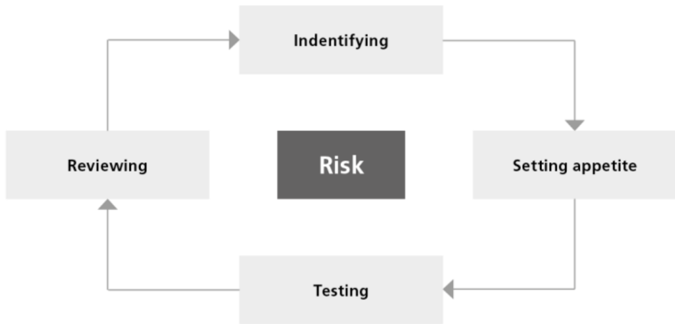


PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

'During 2016 we continued to review and reinforce our Ethics Code and supporting policies, training, communications and compliance activities'

Culture
The Board is keenly aware that the effectiveness of our risk management is dependent not only on systems and processes but also on behaviours. During 2016 we continued to review and reinforce our Ethics Code and supporting policies, training, communications and compliance activities – this also included our comprehensive Supplier Code. Our Board and senior executive management actively support, endorse and champion values and behaviours expected of both internal colleagues and third parties with whom we work, all of which helps to strengthen our risk culture.

How we manage risk
Our approach to risk management is based around a continuous process, which helps to ensure that we remain focused on the appropriate risks and that we are taking the appropriate actions to manage and mitigate those risks and to deliver our business strategy and objectives within agreed risk parameters. Through that process we operate an ongoing cycle of identifying risks; setting risk appetite levels for those risks; testing those risks and risk appetite levels through deep dive analysis into likelihood of occurrence, impacts, mitigation plans, related opportunities and resource and capital expenditure implications; then reviewing those risks and risk appetite levels accordingly.



We are committed to continuing to review and, as appropriate, refine our risk management and reporting processes and activities, in order to enhance our ability to identify issues promptly and in turn proactively to manage our risks and related opportunities.

How we identify risk
Our approach to identifying risks follows a dual approach, using:

A top-down approach based on regular input and insights from the Board and the Group Risk Management Committee, drawing on a broad range of internal and external operational, commercial, economic and other perspectives and helping to establish the key risks, and potential future risks, which could threaten the Group and its ability to deliver its strategy. This gives colleagues throughout the Group a clear direction and set of priorities in their ongoing discharge of their own risk management responsibilities.

A bottom-up approach based on regular individual business unit/function-level input which helps to identify the risks which could threaten local business or functional activities. While these risks are managed at the local level, they are also consolidated and escalated as appropriate to the Group Risk Management Committee and the Board to help in the ongoing cycle of identification, testing and reviewing described above.

Our risk assessment and risk appetite – We assess risks through a standardised process which includes measuring likelihood and impact levels, with and without controls, against a pre-defined scoring matrix. This assessment process assists the Board in prioritising risks and determining its level of risk appetite for each of the principal risks, as well as helping to evaluate the adequacy of existing controls and mitigating actions and the cost-benefit analysis of potential further such controls and actions.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risks overview

During the year the Board, supported by the Group Risk Management Committee, has continued to consider a broad range of risks and uncertainties and has carried out a robust assessment of the principal risks facing the Group along with the current levels of risk appetite for each of those risks.

In 2016, as a result of this ongoing review process, the Directors made the following changes to the risk register:

↑	'Economic risk' moved up to become a principal risk – with a particular focus on risks to free trade and the potential consequences for economic growth given the Group's geographic footprint and globally connected supply chain.
↓	'M&A execution/integration risk' moved down and off the list of principal risks – on the basis that M&A processes are now embedded, learnings have been identified and applied and the Group has stable internal and external resources.
↓	'Joint Ventures and minority shareholder relationships' moved down and off the list of principal risks – in light of the robust controls and effective mitigating actions demonstrated by the executive team in managing key JV relationships.
↓	'Supply and supplier risk' moved down and off the list of principal risks – again in light of the robust controls and effective mitigating actions in place.

Currently then, the Board has identified 10 principal risks, which fall into one of the following three categories:

1. High impact operational risks: risks inherent in our ongoing commercial operations and geographic footprint, which if not effectively managed, would be liable to cause significant commercial disruption.

2. Material legacy risks: risks relating to the Group's past operations and activities, including through historical mergers and acquisitions, which could create material financial exposure for the Group in its present form.

3. Risks to strategy delivery: risks that could adversely impact the Group's ability to achieve its defined strategic objectives.

These principal risks, along with a summary of the measures in place to manage and mitigate them, are set out in the table below.

As stated above, the Board will continue to keep these principal risks, as well as the appropriateness of this list and the ever evolving broader risk environment, under ongoing review.

Principal risk	Risk nature/potential impact	Action/mitigation
1. High impact operational risks		
Product liability **Trend on year: Upwards ↑**	Our expanding product range, in particular in our growing Performance Materials business, could potentially create more product liability exposure for the Group.	Products are tested and measured against stringent quality standards. Controls in the Performance Materials area specifically have been strengthened with enhanced batch by batch testing of safety critical products. Coats' global insurance programme includes product liability cover.
Environmental non-performance **Trend on year: No move ~**	Potential non-compliance with environmental control procedures and/or local requirements could lead to a discharge of pollution resulting in legal and regulatory action, financial penalties, damage to reputation and an adverse impact on ongoing operations.	Coats' Environmental Policy applies across the Group and effluent discharge quality of all dyeing operations is monitored against a pre-determined schedule. We continue to monitor very closely throughout the Group compliance with local laws and regulations and with Coats' Environmental Policy.
Failure of critical infrastructure **Trend on year: No move ~**	Key information systems and data stores could malfunction; and/or key manufacturing and distribution centres could be adversely affected as a result of a number of different scenarios. Disproportionate reliance on such systems and plants could have a significant impact on profitability in the event of such disruption.	The Group's manufacturing and supply chain function monitors and reviews internal supply chains, fire protection and other systems and creates and tests disaster recovery plans. Actions have been taken to further strengthen our Business Continuity Management systems. Rolling property risk surveys are conducted and acted upon in respect of all Coats' critical supply chain nodes. Actions in relation to information systems and data stores are set out in 'Data controls and security'. Coats' global insurance programme includes property destruction and business interruption cover.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Data controls and security **Trend on year: Upwards ↑**	As owners of corporate data, a data controller of personal data and a processor of third party data, failure by the Group to comply with ever-more stringent data protection laws and security controls in different countries could lead to high profile incidents of data loss or theft and could create significant financial and other penalties as well as adverse relationships and reputational consequences. The Group also maintains other business critical electronic information, and inappropriate access to and use of such information, including through cyber-attack, could again create significant financial and commercial exposure.	Coats coordinates the management of its technology infrastructure on a global basis and has a number of cyber security controls in place. Internal data networks are monitored on a 24/7 basis by a central team. External internet access is controlled by policy-based web filtering and access management tools. Other technologies, including data encryption, continue to be deployed to protect data assets hosted at its data centres and on laptops and mobile devices. The Group continues to build its capabilities and progressively to add controls as part of an ongoing cyber security risk management process. Coats continues to refine measures to ensure that all internal users have appropriate access rights and permissions for their roles. There is a global data protection policy in place that is dedicated to protecting the rights of the Group's customers and investors. Progress is underway to ensure compliance with the EU General Data Protection Regulation ahead of it becoming effective in May 2018.
Bribery and anti-competitive behaviour **Trend on year: No move ~**	Non-compliance with applicable bribery and corruption and/or competition/anti-trust laws, regulations and standards by the Group or one of its partners could result in material civil or criminal penalties, exclusion from future contract bidding processes and reputational damage.	The Group has clear and well publicised ethics policies including in relation to partners, contractors and suppliers which are reinforced through a comprehensive Supplier Code. These policies are reviewed annually. There is extensive online and face-to-face training and regular communications through a range of channels. A sub-committee of the Group Risk Management Committee comprising key business and functional leaders meets quarterly to consider specific ethics risks, legislative and regulatory developments and mitigation plans. The Group actively maintains a whistle blower system, enabling employees and others who are aware of or suspect unethical behaviour to report it confidentially.
2. Material legacy risks		
Pension scheme deficit funding and pensions investigation **Trend on year: No move ~**	The UK pension schemes' triennial valuations could lead to increased and/or accelerated cash contributions. These could impact one or more of free cash flow and dividend payments. Additionally, the UK Pensions Regulator's investigation in respect of the Staveley scheme could lead to a Financial Support Direction being imposed on the Group.	The funded pension schemes are overseen by their Trustees, who are required to have the appropriate knowledge and understanding in this area and who take professional and actuarial investment advice as necessary. Where appropriate independent professional trustees are appointed to schemes to provide additional expertise. The Group and the scheme trustees routinely review de-risking of the schemes through liability management and investment strategies. The strategy relating to the ongoing investigation in relation to the Staveley scheme and the schemes' funding positions more generally, are regularly reviewed by the Board in light of recommendations from the Pensions Committee.
Legacy environmental risks **Trend on year: No move ~**	Under the laws of certain countries, Coats' subsidiaries could potentially be responsible for investigating and/or remediating conditions alleged to be associated in whole or in part with former operations.	The Board continues to monitor the strategy and developments in relation to the Lower Passaic River proceedings, more detail of which can be found in note 28. Beyond that the Group continues to refine its policies and procedures for managing and mitigating potential legacy risks associated with former operations.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

3. Risks to strategy delivery

Appropriate capability development **Change in year: Downwards ↓**	Failure to identify and retain key staff and/or continue to develop key skill sets among them could result in an inability to execute the Group's growth strategy.	The Board and senior management remain very focused on talent and capability development, as well as retention and succession planning. 2016 capability development actions have included new cohorts on a range of sales force, management and senior management development programmes and individual coaching for selective senior managers. In addition, our annual Talent Management and Succession Planning process reviews talent in the top 300 roles.
Emergence of disruptive competitor behaviour in core markets **Change in year: No move ~**	Planned or irrational strategies or behaviours by one or more industry competitors in relation to the Group's core markets could adversely impact its position, profitability and strategic goals.	We strongly believe in the importance of healthy competition and the benefits that brings to both our customers and ourselves. We maintain a deep understanding of emerging industry trends through our relationships and contacts with customers and global brands and through our R&D activities with university and specialist led research projects. Outputs and insights from these allow us to undertake ongoing 'horizon scanning' and planning strategies.
Economic risk **Change in year: Upwards ↑**	Like any company with global activities, the Group is exposed to risks arising from uncertainty around future macroeconomic conditions and, in particular, the risks to free trade and the potential consequences for economic growth. Following the results of the British referendum on its membership of the European Union and the US Presidential election, this risk has increased. As a global industrial manufacturing company with no UK manufacturing facilities and minimal direct sales in the UK, Coats is of the view that there would be limited direct adverse impacts on the Group from Brexit. Both the UK and the EU, however, are significant markets for both Apparel and Footwear and Performance Materials sales and therefore any impact on future growth expectations for these markets could have an indirect consequence on the business. Whilst the future relationship between the UK and EU remains uncertain, there have been indirect factors which have impacted the 2016 results, primarily the effect of lower discount rates on the accounting valuation of pension liabilities and the depreciation of sterling on our UK costs. In the near and longer term there may be other impacts, notably the risk of greater protectionism in the US and fluctuations in foreign exchange rates that create volatility in the Group's results.	The Group conducted a thorough risk assessment prior to the UK referendum and continues to monitor developments closely. In addition, the Group is well diversified in its operations across geographies and sectors, is cash generative and has committed debt facilities with significant levels of headroom to support the business. The Group also has an established forecasting and planning process which takes into account and responds to both macro and micro economic trends. It has a defined policy on hedging its exposure to fluctuations in foreign exchange and a culture of cost control to manage and preserve cash.

LONG TERM VIABILITY STATEMENT

‘THE BOARD REVIEWS THE MEDIUM TERM PLAN ANNUALLY AS PART OF ITS STRATEGY REVIEW PROCESS.’

In accordance with provision C.2.2 of the 2014 revision of the Corporate Governance Code, the Directors have assessed the longer term viability of the Group over the period to December 2019. The Directors’ assessment has been made with reference to the Group’s current position and prospects, the Group’s existing committed finance facilities, the Group’s strategy and the potential impact of the principal risks and how these are managed, as detailed in this strategic report.

The Group’s strategic objectives and associated principal risks are underpinned by a set of market goals for the next three years and an annual Medium Term Plan process, which comprises a financial forecast for the current year and financial projections for the next three years. The Medium Term Plan represents a common process with standard outputs and requirements at the Group level.

The Board reviews the Medium Term Plan annually as part of its strategy review process. Although this period provides less certainty of outcome, the underlying methodology is considered to provide a robust planning tool against which strategic decisions can be made. For these reasons, the Directors have determined that a three-year time horizon to December 2019 is an appropriate period over which to provide its viability assessment.

The Directors have considered a range of severe but plausible scenarios that explore the Group’s resilience to the potential impact of the principal risks as set out on pages 22 to 24. The risks considered to have the most potential impact on viability were:

- Pension scheme deficit funding;
- A global economic downturn;
- Emergence of disruptive competitor behaviour in our core markets; and
- Legacy environmental risks.

These risks have been modelled both individually and in combination, notwithstanding the fact that the likelihood of all of these risks occurring simultaneously is considered to be very low. The Directors have also taken into account a number of assumptions which the Directors consider reasonable within these assessments including:

- The assumption that funding facilities will continue to be available throughout the period under review;
- The assumption that following a material risk event, the Group would adjust capital management to preserve cash; and
- The assumption that the Group will be able to mitigate risks effectively through enacted or available actions as described.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment.

OPERATING REVIEW

In the following commentary all references to revenue are on a CER basis and all references to operating profit are on an adjusted CER basis, unless otherwise stated.

Industrial

	2016 Reported $m	2015 Reported $m	Reported inc/(dec) %	2015 CER[1]	CER[1] inc/(dec) %	Organic[4] inc/(dec) %
Revenue[2]						
By business						
Apparel and Footwear	975	979	0%	949	3%	2%
Performance Materials	246	233	6%	227	9%	3%
Total	**1,221**	**1,213**	**1%**	**1,176**	**4%**	**2%**
By region						
Asia	720	715	1%	700	3%	3%
Americas	249	266	(6)%	254	(2)%	2%
EMEA	252	231	9%	221	14%	7%
Total	**1,221**	**1,213**	**1%**	**1,176**	**4%**	**2%**
Segment profit[2, 3]	**154.7**	**135.2**	**14%**	**130.7**	**18%**	**16%**
Segment margin[2,3]	**12.7%**	**11.2%**	**150bps**	**11.1%**	**160bps**	**150bps**

1 2015 like-for-like restates 2015 figures at 2016 exchange rates.

2 Includes contribution from bolt-on acquisitions made during the period.

3 On an adjusted basis which excludes exceptional and acquisition related items.

4 On a CER basis excluding contributions from bolt-on acquisitions.

Revenue in Apparel and Footwear (A&F) grew 3% in 2016 on a CER basis. H2 sales growth reduced marginally to 2% following 3% growth in H1. In a challenging pricing environment sales growth was driven by market share gains as the underlying market growth was adversely impacted by softer retailer demand throughout the year. Coats' ability to continue to take market share was driven by several factors including deepening its relationships with retailers and brand owners through its global accounts programme, and with manufacturers, through the increasing adoption of digital services. Two years after the Company rolled out an eCommerce platform it is now live in over 25 countries, used by over 12,000 customers (manufacturers) and accounts for over 70% of our total thread orders. It has also enabled a reduction in back office headcount. In addition, market share gains were realised through the launch of innovative new products and customer propositions, for example in the denim and active sportswear segments.

Performance Materials revenue grew 9% in the year on a CER basis, including contributions from bolt-on acquisitions, with organic growth of 3% which was impacted by challenging market conditions in US consumer durable markets, in traditional markets such as outdoor goods, where destocking was prevalent. Emerging markets continued to deliver good sales growth through geographic expansion of existing products, such as furniture and upholstery. The business also continued to grow sales in new, innovative products, for example in the fibre optics sector and protective clothing, and entered new end-markets such as carbon composites. This resulted in H2 growth of 13% driven by incremental acquisition revenue (Gotex) along with an improvement in organic growth to 4% (H1 3% growth).

By region, full year revenue in Asia grew by 3% which is in line with H1 performance, with demand remaining solid in A&F despite some specific market headwinds (for example India demonetisation in H2). In the Americas revenues were marginally down with solid growth in A&F sales in Latin American markets such as Mexico and Colombia offset by the continued slowdown in some US consumer durable markets. Sales in EMEA rose 14% (7% excluding acquisitions) which was a continuation of strong H1 growth, following a challenging 2015, with growth in key A&F markets and strong performance in Performance Materials.

Industrial operating profit increased 18% to $155 million (2015: $131 million) and margins increased 160bps to 12.7%. This reflected good volume growth driving a positive operational gearing impact, a reduction in material costs due to the lower average oil price compared to 2015 (although this benefit started to subside in H2), ongoing productivity savings, non-raw material procurement improvements along with benefits from business reorganisation activity (for example the 2015 Mexico production site relocation). These factors more than offset the challenging pricing environment allowing strong improvements in gross margin, and control of its cost base despite the structural wage and energy inflation that the Group faces across the many countries in which it operates.

OPERATING REVIEW
CONTINUED

Acquisitions
As previously reported, in June 2016, Coats completed the acquisition of Gotex, a company that designs, manufactures and sells a range of innovative, high performance industrial textiles to serve industries such as telecommunications (fibre optic cables), energy and oil and gas. Based near Barcelona, Spain, Gotex is a market leader in coated fibreglass yarns with proprietary technology that enables manufacturing at significantly higher speeds than conventional technology. This will complement Coats' aramid product range and strengthen Coats' presence in fibre optics. Coats will support Gotex in further expanding into high-growth markets by leveraging Coats' unrivalled geographic footprint, breadth of global customer relationships and strong corporate brand. In 2015, Gotex generated sales of approximately €14 million. The initial consideration was US$28 million, with a further payment of up to US$4 million after a two-year period, contingent on Gotex achieving certain performance targets.

In addition, in May 2016, Coats acquired Fast React, a UK based provider of software solutions and expertise to manufacturers and retailers in the apparel and footwear industries to improve their operational efficiency. The business generated revenues of approximately £4 million in 2015 ($5 million). The initial consideration was US$7 million, with further payments of up to US$4 million over a three-year period, contingent on Fast React achieving certain performance targets. The transaction enables Coats Global Services to offer an even wider range of productivity improvement tools to customers and follows the acquisition of GSD in May 2015.

Both Gotex and Fast React have performed well under Coats ownership, having delivered $16 million of sales and $3 million of operating profit in 2016 by leveraging Coats global reach and strong customer relationships.

Crafts

	2016 Reported $m	2015 Reported[1] $m	Reported (decrease) %	2015 CER[1,2]	CER[2] (decrease) %
Revenue[2]					
By business					
Handknittings	121	141	**(14)%**	140	(13)%
Needlecrafts	115	119	**(4)%**	116	(1)%
Total	**236**	**260**	**(9)%**	**256**	**(8)%**
By region					
North America	176	198	(11)%	198	(11)%
Latin America	60	62	(2)%	58	4%
Total	**236**	**260**	**(9)%**	**256**	**(8)%**
Segment profit[3]	**10.8**	**14.9**	**(28)%**	**14.5**	**(26)%**
Segment margin[3]	**4.6%**	**5.7%**	**(120)bps**	**5.7%**	**(110)bps**

1 Restated to exclude the results of UK Crafts.
2 2015 like-for-like restates 2015 figures at 2016 exchange rates.
3 Pre-exceptional items.

Crafts Americas revenues declined 8% to $236 million on a CER basis in 2016 (2015: $256 million). Handknitting sales declined 13% due to a sharp decline in the US handknitting market. Based on feedback from Coats major customers, the mild North American winter was a contributing factor in H1, while systems issues at a key customer also negatively impacted demand. In H2 there was a continued improvement in handknitting sales volumes resulting in a reduced CER decline of 5%. Revenue in Needlecrafts decreased 1% but with continued growth in Coats' lifestyle fabrics sales during the period. Revenues in Latin America grew 4%, with marginal volume growth supported by pricing gains.

Following the continued decline in North America sales and raw material price increases, profit in Crafts Americas for the year reduced to $11 million (2015: $15 million) and margins decreased by 110bps to 4.6%. Margin downside was limited by cost actions, such as reducing discretionary spend and tightly controlling overheads.

UK Crafts
Following the disposal of the EMEA Crafts business in 2015, Coats has closed its loss-making UK Crafts operations which is reported as a discontinued item in the full year 2016 results. In 2016 the business generated revenues of $8.8 million and an operating loss of $4.5 million. The closure has no impact on the ongoing Americas Crafts business.

FINANCIAL REVIEW

Simon Boddie
Chief Financial Officer

In the following commentary all references to revenue are on a CER basis and all references to operating profit are on an adjusted CER basis, unless otherwise stated.

Overhead reduction programme
As previously reported, following the disposal of EMEA Crafts in July 2015, Coats reviewed elements of its cost base to establish the appropriate cost structure for a smaller and less complex Group. As a result, $14.1 million of restructuring costs were recognised in 2015. The programme continued to deliver in line with management expectations during 2016 and full benefits are expected to be realised by H1 2017, although a significant proportion of these savings will be reinvested to support the Group's growth plans.

Exceptional and acquisition related items
Net exceptional and acquisition related items before taxation and discontinued items were $4.6 million in 2016. These are related to Gotex and Fast React transaction costs, the amortisation of intangible assets acquired, and contingent consideration linked to continued employment. In 2015 net exceptional costs before taxation and discontinued items totalled $29.9 million and mainly related to the consolidation of Coats' Mexican operations, the cost of the overhead reduction programme and a provision for remedial work on the Lower Passaic River ('LPR'), New Jersey, USA. There are no further significant developments in relation to LPR to report. See note 28 for further details.

Non-operating results
Net finance costs in the period were $31.6 million, marginally up from $31.2 million in 2015. There was a reduction in interest on borrowings from $17 million to $14 million in 2016 partly due to fixed interest rate swaps coming to an end. There was approximately $5 million of unrealised losses on forward foreign exchange contracts in part due to the depreciation of Sterling vs US Dollar. With the movement of all the parent group cash (committed to support the Company's pension schemes) to Pound Sterling from New Zealand, Australian and US Dollars in H2 2015, interest income on the balance declined to $2 million in 2016 (2015: $5 million). IAS19 pensions interest charges reduced from $17 million to $14 million as a function of the lower pensions accounting deficit at the end of 2015.

The taxation charge for 2016 was $46.8 million (2015: $43.7 million) resulting in a reported tax rate of 38% (2015: 54%). Excluding exceptional and acquisition related items, the impact of IAS19 finance charges and foreign exchange gains/losses on the parent group cash balance the underlying effective rate on pre-tax profits reduced 100bps to 34% (2015: 35%). This was driven by a reduction in current year unrelieved losses, together with a favourable change in profit mix for the period. The main prior year adjustments relate to the reassessment of previously estimated deferred tax assets and liabilities.

Profit attributable to minority interests increased to $11.9 million (2015: $11.2 million) and is predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests).

Adjusted EPS increased 23% to 4.91 cents (2015: 4.00 cents). The higher operating profit and improvements in the underlying tax rate were partially offset by the $5m unrealised loss on forward foreign exchange contracts. Reported EPS of 4.60 cents compares to 1.81 cents in 2015 (for continuing operations); last year's result was impacted by a higher level of exceptional costs (there was a reported loss per share of 3.61 cents in 2015 due to a loss on discontinued items related to the EMEA Crafts business).

Total other comprehensive income and expense for the year was significantly impacted by actuarial losses in relation to the Group's defined benefit pension schemes of $325 million (2015: $67 million gain), as a result of changes to actuarial assumptions and asset returns.

Investment
Capital expenditure during the year, in addition to ongoing maintenance requirements, focused on new product development, process improvements, capacity expansion, health and safety, and environmental spend. The latter, which includes building effluent treatment plants, helps ensure Coats maintains its strong corporate responsibility credentials in the Industry. Total capital spend amounted to $40 million (2015: $44 million) and was 1.0 times depreciation and amortisation.

FINANCIAL REVIEW CONTINUED

In order to support our future growth strategy and reinforce our strong environmental compliance credentials we have made the decision to increase our capital expenditure in 2017 to around 1.5 times depreciation. This spend is expected to be weighted towards the second half of the year. This investment will be funded by our operating cash flow which will continue to benefit from the management and discipline which has been in place in recent years.

Cash flow

Coats generated a $78 million adjusted free cash inflow in 2016, compared to $71 million in 2015 Ⓐ.

EBITDA Ⓐ (defined as pre-exceptional operating profit before depreciation and amortisation) was $199 million, up from $183 million in 2015 (on a reported basis) due to the factors that contributed to the increase in pre-exceptional operating profit outlined earlier in the report.

There was a $3 million net working capital outflow in 2016 (2015: $19 million outflow). The movement in net working capital in the year was mainly due to increases in inventory in order to enhance service levels and lower trade creditors as we continued the implementation of a revised and consistent payment approach to suppliers to ensure we treat all parties in the supply chain in an ethical and sustainable way. These reductions were offset by lower debtors (reduction in sales days outstanding offsetting increased trading activity) and the timing of payments to other operating related creditors (for example rebate and indirect taxes payment timings).

Interest paid decreased to $14 million (2015: $15 million) as a result of a reduction in interest rates on borrowings. Tax paid increased year-on-year from $49 million to $58 million in 2016 as a result of higher profitability and increased withholding taxes from the repatriation of locally held cash around the Group. Payments to minority interests increased year-on-year to $13 million (2015: $10 million), also as a result of the increase in repatriating cash held locally around the Group.

There was an $84 million free cash outflow in 2016 (2015: $21 million outflow). This included UK pension recovery payments including administrative expenses of $99 million (2014: $34 million), of which approximately $19 million was paid to the Coats Plan, $53 million to the Staveley Scheme (of which $46 million was a non-recurring contribution), and $27 million was paid to the Brunel scheme (of which $20 million was a non-recurring contribution). There was a $3 million outflow (2015: $8 million) relating to the purchase of own shares for the Employee Benefits Trust. This was to cover the continuing requirements for a share-based long term incentive scheme (in line with the standards of a FTSE 250 company) for senior employees, that more clearly aligns their interests with those of shareholders. Exceptional items included $4 million spent on the pensions investigation (2015: $9 million), and $8 million on the overhead reduction programme. In addition, $36 million was spent on the acquisition of Gotex and Fast React (2015: $6 million in relation to the GSD acquisition).

Overall, net cash Ⓐ for the Group reduced by $162 million in the year to $78 million. This predominantly consisted of $84 million free cash outflow (as referred to above), and $77 million foreign exchange movements ($74 million of which is in relation to parent group cash).

Foreign exchange

Performance on a reported basis was impacted by the relative strength of the US Dollar compared to 2015, resulting in a 1% reduction in reported revenues year on year (vs a 2% growth on a CER basis), and 13% growth in adjusted operating profit (vs a 16% growth on a CER basis). As the Company reports in US Dollars and given that its global footprint generates significant revenues and expenses in a number of other currencies, a translational currency impact can arise. The main currency impact during the period was the US Dollar against Sterling, Brazilian Real, Indian Rupee, Mexican Peso, and Turkish Lira with a smaller absolute impact on operating profit compared to revenues. Furthermore, if the reported 2016 results had been translated at exchange rates as at 31 December 2016 then Group revenue and adjusted operating profit would have been $28m and $6m lower respectively.

Balance sheet

As referred to above, the Company had a net cash position of $78 million at 31 December 2016 (31 December 2015: $241 million). This included parent group cash, held in Sterling and committed to support the Group's three UK pension schemes (Sterling liabilities) of $343 million, compared to $505 million at the end of 2015. The reduction was primarily due to $80 million of pensions recovery payments (including administrative expenses) made to the Brunel and Staveley schemes in 2016 and, in US Dollar terms, due to the depreciation of Sterling ($74 million), although there is no real impact as the cash is matched to the Sterling denominated liabilities.

The Coats operating business had a net debt position Ⓐ of $265 million at the end of 2016 (see note 30), a marginal increase of $1 million from 31 December 2015 ($264 million). An important metric for the operating business is the leverage ratio Ⓐ of net debt (excluding parent group cash) to EBITDA. Net debt at 31 December 2016 was 1.3 times EBITDA for the year (1.4 times at 31 December 2015).

Pensions and other post-employment benefits

The net obligation for the Group's retirement and other post-employment defined benefit liabilities, on an IAS19 financial reporting basis, was $627 million as at 31 December 2016, up from $469 million at 31 December 2015. The increase in liabilities in the year of $158 million primarily consisted of actuarial losses of $325 million and Income Statement charges of $31 million, offset by cash payments into the UK schemes of $99 million and foreign exchange gains on Sterling liabilities of $94 million.

Ⓐ Alternative Performance Measures – see note 37 on page 146.

FINANCIAL REVIEW CONTINUED

The deficits in the Group's UK defined benefit schemes, namely the UK Coats Plan, and Brunel and Staveley schemes, increased to $576 million (£467 million) from the position at 31 December 2015 ($423 million, £286 million). This was primarily due to an increase in liabilities largely driven by a 110bps decrease in the discount rate to 2.5% (derived using a yield curve approach, based on Sterling AA corporate bonds) as well as a 35bps increase in the rate of inflation to 3.3% (based on a market implied long term rate). The increase in liabilities was partially offset by a better than expected increase to asset values. Furthermore, in US Dollars the value of the UK net deficits have declined due to the weakening of Sterling over 2016. The reduction in the Staveley deficit was due to the £34 million payment made as part of the deficit repair plan agreed earlier this year. A £15 million payment was also made to the Brunel scheme in the second half of 2016.

IAS19 deficit	**31 Dec 2016 $m**	**31 Dec 2015 $m**	**31 Dec 2016 £m**	**31 Dec 2015 £m**
Coats Plan	467	264	378	179
Brunel	64	72	52	48
Staveley	45	87	37	59
UK defined benefit schemes	**576**	423	**467**	286
Other Coats net employee benefit obligations	51	46		
Total	**627**	469		

Pensions

Investigations

In February 2017, we announced that the Company had signed binding settlement agreements with the Trustees of the UK Coats Pension Plan and Brunel Holdings Pension scheme. This has now completed and the Company has received written assurances from the UK Pensions Regulator its regulatory action has ceased in relation to these two schemes under the Warning Notices that it issued to the Company in 2013 and 2014. The Trustees of the Staveley scheme have not to date accepted the Company's proposal regarding that scheme and currently the UK Pension Regulator's investigation in connection with that scheme remains open. The proposal remains open to the Trustee of the Staveley scheme and the parent group cash will be used for this purpose.

The UK Coats Pension Plan and the Brunel Holdings Pension scheme represent approximately 90% of the Company's UK pension liabilities[1] and schemes' members.

The Company made proposals to the Trustees of each of the three UK schemes (including the Staveley scheme), on a comparable basis, comprising (1) upfront payments totalling £329.5 million ($406 million) from the Company's parent group cash (inclusive of the agreed Recovery Plan contributions paid to the Brunel and Staveley schemes since 1 January 2016); and (2) annual deficit recovery contributions totalling £17.5 million ($22 million) including estimated administration expenses and levies.

The principal commercial terms of the Settlement with the Coats Pension Plan and Brunel Holdings Pension scheme are:

- Financial support on the basis of a combined technical provisions deficit as at 1 April 2015 of £485 million ($598 million) to be repaired by:

  a) upfront payments totalling £255.5 million ($315 million) from the Company's parent group cash paid directly into the schemes (inclusive of the agreed Recovery Plan contributions paid to the Brunel scheme since 1 January 2016); and

  b) annual deficit contributions totalling £14.5 million ($18 million), including estimated administration expenses and levies to be paid until 2028.
- The schemes will have access to sponsor support from Coats for future funding needs together with a Company guarantee.
- The next triennial valuation date for these schemes is to be 31 March 2018.

As a result of the settlement with the UK Coats and Brunel schemes, the principal impacts on the financial statements are anticipated to be as follows:

- Cash flow: In 2017, the UK pension deficit reduction payments (including administrative expenses) are expected to be in the region of £257 million ($317 million) (2016: $99 million), being £255.5 million ($315 million) agreed settlement with the UK Coats and Brunel schemes less certain scheduled recovery payments made during 2016 of £20 million ($25 million), along with the latest agreed on-going payments including expenses of £21 million ($26 million). These anticipated deficit recovery payments will not impact adjusted free cash flow.

1 IAS19 position at 31/12/16.

FINANCIAL REVIEW CONTINUED

- IAS 19 deficits (UK schemes): on a pro-forma basis (factoring in only cash payments made into the schemes as part of the UK Coats and Brunel settlements), the 31 December 2016 IAS 19 deficits for the Group of £467 million ($576 million) would reduce to £232 million ($286 million) following the upfront payments of £235 million ($290 million) made into the UK Coats and Brunel schemes following completion of the settlements on those schemes.
- Parent group cash: in line with the above, on a pro-forma basis, the Group net cash balance of £278 million ($343 million) as at 31 December 2016 would reduce to £43 million ($53 million) following the upfront payments of £235 million ($290 million) made into the UK Coats and Brunel schemes following completion of the settlements on those schemes. Cash remains reserved for the Staveley Scheme settlement, in line with previous announcements.

The impacts on adjusted free cash flow, operating profit and adjusted EPS are not expected to be significant.

Triennial funding valuations
As noted above the next triennial funding valuations for the UK Coats and Brunel schemes have an effective date of 31 March 2018 and will need to be agreed by 30 June 2019. The Staveley Scheme's triennial funding valuation has an effective date of 31 December 2016 and would need to be agreed by 31 March 2018.

Dividend
Coats has a track record of delivering good levels of free cash through profitable sales growth, delivering self help initiatives and investing in organic growth opportunities. The Board aims to use this free cash flow to appropriately fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders.

Over time, and as underlying earnings and cash flows increase, the Board intends to pursue a progressive dividend policy.

Following the pensions settlement agreement with the Trustees of the UK Coats and the Brunel pension schemes and the cessation of regulatory action by the UK Pensions Regulator (TPR) related to those schemes, the Board has decided to commence the payment of ordinary dividends. The Board proposes to pay an ordinary final dividend of 0.84 US cents per share, subject to shareholder approval, on 30 May (payment date) to shareholders on the register on 5 May (record date), with an ex-dividend date of 4 May.

If the pensions settlement had been in place throughout the financial year an interim dividend of 0.41 c would have also been paid during 2016. Therefore, the pro-forma full year dividend of 1.25 c per share represents dividend earnings cover (on an adjusted EPS basis) of 3.9x times and cash cover, post pensions recurring deficit contribution payments, of 2.6x.

The ordinary final dividend will be paid in cash, in Sterling, converted at the closing exchange rates on 10 May. Shareholders will also have the option to have the dividend paid in either US dollars, Australian dollars, or New Zealand dollars. Details of these options will be sent to shareholders during March 2017 and elections for alternative payment to Sterling must be received by 8 May. If no response is received, the default payment currency of the dividend will be Sterling.

Post Balance Sheet event
On 22 January 2017, the main distribution centre for the US Crafts business in Albany, Georgia suffered significant damage following a tornado strike, including one building which housed sourced products for yarns, threads and crafting implements. The decision had been taken to close the centre at the time and there were no injuries to Coats' personnel. Although buildings in the centre are leased, our initial estimate is that the tornado has damaged a significant proportion of the stock as well as causing disruption to our logistics activities. Given the extent of the damage temporary alternative premises have been found but operations are not expected to be fully back to normal until later in Q2.

The Group's insurance policies are expected to be sufficient to cover both the loss of inventory and physical assets. Although sales will be adversely impacted in the first half, lost profits as well as the incremental costs of re-establishing operations are included in the Group's business interruption insurance cover.

Simon Boddie
Chief Financial Officer

The Strategic report comprising pages 1 to 31 was approved by the Board and signed on its behalf by the Group Chief Executive.

Rajiv Sharma
Group Chief Executive

9 March 2017

BOARD OF DIRECTORS

The Board provides leadership of the Company and is responsible to the shareholders for its long term success.

Membership details can also be found online at **www.coats.com/aboutus**

Mike Clasper CBE
Chairman

- Committee membership: Nomination (Chair)
- Key skills and experience: Mike has over 35 years' experience in general management and marketing for global companies, with a particular focus on brands and business services.
- Other current appointments: Mike is currently Chairman of Which? Ltd. and the Senior Independent Director at Serco Group plc. He is also President of the Chartered Management Institute (CMI) and a governor of the Royal Shakespeare Company (RSC).
- Previous relevant experience: Mike has previously served as Chief Executive Officer of BAA plc, Chairman of HM Revenue & Customs, Operational Managing Director at Terra Firma, and held a number of senior management positions at Procter & Gamble. He has also been the Senior Independent Non-Executive Director of ITV plc, Chairman of the West London Consortium, and Chairman of the Market Place Impact Taskforce of Business in the Community.
- Qualifications: Mike holds an MA in Engineering from the University of Cambridge.

Rajiv Sharma
Group Chief Executive

- Committee membership: Nomination
- Key skills and experience: Rajiv became Group Chief Executive on 1 January 2017, having served as an Executive Director since March 2015. He has over 30 years of commercial experience which spans multiple disciplines, including M&A, digital and leading large complex businesses. Rajiv joined Coats in November 2010 as Global CEO Industrial with responsibility for leading the global Industrial business.
- Other current appointments: Rajiv does not currently have any other external appointments.
- Previous relevant experience: Rajiv has experience running businesses at other long standing global manufacturing companies including Honeywell, GE and Shell. The majority of his career has been dedicated to growing or turning around businesses.
- Qualifications: Rajiv holds a degree in Mechanical Engineering, as well as an MBA from the University of Pittsburgh, USA.

Simon Boddie
Chief Financial Officer

- Committee membership: None
- Key skills and experience: Simon has over 30 years' experience of working in finance with extensive knowledge of international operations, emerging markets and digital.
- Other current appointments: He is currently a Non-Executive Director of PageGroup plc, a specialist recruitment company, where he also chairs the audit committee.
- Previous relevant experience: Simon was previously Group Finance Director for 10 years at Electrocomponents plc, a FTSE 250 industrial distribution business. Prior to Electrocomponents, Simon worked for Diageo, the leading international drinks business, where he held a variety of senior finance positions. His career started at Price Waterhouse, where he qualified as a Chartered Accountant, before spending six years in the Corporate Finance Team of Hill Samuel Bank.
- Qualifications: Simon is a member of the Institute of Chartered Accountants in England and Wales and has an MA in Economics from the University of Cambridge.

BOARD OF DIRECTORS
CONTINUED

The role of the Non-Executive Directors is to provide constructive challenge to the executive management, and to bring experience and objectivity to the Board's discussion and decision-making.

Membership details can also be found online at **www.coats.com/aboutus**

Nicholas Bull
Senior Independent Non-Executive Director
- Committee membership: Audit and Risk, Nomination
- Key skills and experience: Nicholas is a qualified chartered accountant with over 30 years' experience in global banking.
- Other current appointments: He is currently Chairman of the investment trust, Fidelity China Special Situations plc, as well as a trustee of the Design Museum, the Conran Foundation and a member of the Council of the University of Exeter.
- Previous relevant experience: Until the completion of its asset disposal programme in early 2015, Nicholas was Chairman of De Vere, the hotel and leisure group. He has also served as Chairman of the Advisory Board of City stockbroker, Westhouse Securities and of Smith's Corporate Advisory Limited. Prior to that he had a career in banking with Morgan Grenfell (subsequently Deutsche Bank), Société Générale and ABN AMRO working in London, Hong Kong, Singapore and Sydney.
- Qualifications: Nicholas has a BSc in Chemistry from the University of Exeter and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mike Allen
Independent Non-Executive Director
- Committee membership: Nomination, Remuneration
- Key skills and experience: Mike is a professional director based in New Zealand.
- Other current appointments: Mike is Chairman of Investore Property Limited, Director of Godfrey Hirst Australia and Taumata Forests Limited, and an Independent Director of China Construction Bank (NZ) Limited and Tainui Group Holdings.
- Previous relevant experience: Mike has over 25 years' experience in banking and investment banking.
- Qualifications: Mike has an LLB / BCom from Otago University, New Zealand.

Ruth Anderson
Independent Non-Executive Director
- Committee membership: Audit and Risk (Chair), Nomination
- Key skills and experience: Ruth is a chartered accountant with more than 30 years' experience of working for the accounting firm KPMG LLP.
- Other current appointments: Ruth is a Non-Executive Director at Ocado Group plc and Travis Perkins plc and chairs the audit committees at both. She is also a Trustee of The Royal Parks and a Trustee of the charity The Duke of Edinburgh's Award.
- Previous relevant experience: During her career with the accounting firm KPMG LLP Ruth worked from student accountant to UK Vice Chairman and advised many global businesses.
- Qualifications: Ruth has a BA in French and Spanish from the University of Bradford. She is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Institute of Taxation.

BOARD OF DIRECTORS
CONTINUED

David Gosnell
Independent Non-Executive Director

- Committee membership: Audit and Risk, Nomination, Remuneration (Chair)
- Key skills and experience: David has over 30 years' experience in supply and procurement strategy and execution.
- Other current appointments: David is currently Non-Executive Director of Brambles Ltd, the supply chain solutions provider and Chairman of Old Bushmills Distillery Company Ltd.
- Previous relevant experience: In December 2014, David retired from Diageo plc where he had most recently held the role of President of Global Supply and Procurement. He led a team of 9,000 people around the world across manufacturing, logistics and technical operations as well as managing Diageo's global procurement budget. Prior to joining Diageo, David spent 25 years at HJ Heinz in various operational roles.
- Qualifications: David holds a Bachelor of Science degree in Electrical and Electronic Engineering from Middlesex University and has completed Supply Chain Manufacturing – Drive Operational Excellence at INSEAD (Singapore).

Fran Philip
Independent Non-Executive Director

- Committee membership: Nomination, Remuneration
- Key skills and experience: Fran has over 30 years of apparel merchandising, product innovation and branding experience having spent the majority of her career at LL Bean, the US retailer.
- Other current appointments: Fran is currently a Non-Executive Director of a number of US companies including Vera Bradley, the accessories brand; Totes Isotoner, the accessories manufacturer; Regent Holding, a home décor designer and importer; and an Industry Executive for Freeman Spogli, a US private equity firm specialising in retail and consumer brands.
- Previous relevant experience: Fran started her career as a Market Research Analyst at Star Market, the US grocery chain. She joined LL Bean in 1994 as Director of Product Development, Home Furnishings and went on to hold a number of roles including Vice President, Affiliated Brands, before becoming Chief Merchandising Officer in 2002 until she retired in 2011.
- Qualifications: Fran has a degree in English and Sociology from Bowdoin College, Maine, and has an MBA from the Harvard Business School.

Alan Rosling, CBE
Independent Non-Executive Director

- Committee membership: Audit and Risk, Nomination, Remuneration
- Key skills and experience: Alan has wide international experience especially in Asia. He has worked in general management, strategy and business development roles across a number of sectors including energy, textiles, retailing, banking and government.
- Other current appointments: Alan chairs Griffin Growth Partners, a specialist strategic advisory firm focused on growing markets in Asia. He is also co-founder of Kiran Energy, one of India's leading solar power developers.
- Previous relevant experience: Until 2009 Alan was an Executive Director of Tata Sons Limited. Prior to that he was Chairman of the Jardine Matheson Group in India, Strategy Development Director at United Distillers and a member of The Policy Unit at No. 10 Downing Street. He was CEO of Piersons, a division of Courtaulds Textiles, and an investment banker with S.G. Warburg & Co.
- Qualifications: Alan has an MA in History from the University of Cambridge and an MBA from the Harvard Business School.

GROUP EXECUTIVE TEAM

The Group Executive Team is responsible for the operational delivery of the Company's strategy.

- Membership details can also be found online at **www.coats.com/aboutus**

Rajiv Sharma, Group Chief Executive – for details see page 32.

Simon Boddie, Chief Financial Officer – for details see page 32.

Shantanu Banarjee, President Performance Materials – Shantanu has 30 years' experience working at Coats and has held a number of senior marketing and manufacturing roles across North America and South Asia. Currently, as President of Performance Materials, he is responsible for leading and growing the business in all geographic clusters around the world by focusing on innovation and technology development.

Ronan Cox, Chief Operating Officer EMEA and LatAm – Ronan has over 20 years of experience working at Coats. In his role he has responsibility for ensuring a safe, respectful and inclusive working environment across Coats' operations in EMEA and Latin America with sound internal controls, whilst delivering the financial objectives for the hemisphere.

Adrian Elliott, President Apparel and Footwear – Adrian leads the Apparel and Footwear segment at Coats providing a world class portfolio of threads, zips and trims to global brands and manufacturers. He is primarily responsible for the development and delivery of value adding products and customer propositions leading to sustainable and profitable sales growth.

Hizmy Hassen, Chief Digital and Technology Officer – As Chief Digital and Technology Officer, Hizmy has global responsibility for Technology within the organisation and is responsible for digitising Coats' customer facing interactions which will underpin sales growth and increased productivity. Hizmy has worked at Coats for almost 20 years and across areas of Supply Chain, Technology and Digital.

Ashok Mathur, Chief Operating Officer Asia – Ashok has extensive experience working at Coats. As Chief Operating Officer he is responsible for ensuring a safe, respectful and inclusive working environment across Coats' operations in Asia, with sound internal controls, whilst delivering the financial objectives for the hemisphere. Ashok has experience of working across various Sales, Marketing and Supply Chain roles in India.

Stuart Morgan, Chief Legal & Risk Officer and Group Company Secretary – Stuart joined Coats in 2014 and is responsible for legal and compliance, governance, risk management and company secretarial matters. He was previously General Counsel, Global Retail and Wealth with Lloyds Banking Group where he led international teams and provided legal and regulatory advice, risk management guidance and strategic support.

Massimo Petronio, Chief Operations Officer – In his role of Chief Operations Officer Massimo has functional responsibility for logistics, manufacturing and procurement with the primary goals of optimising inventory and service, driving productivity improvements, allocating capital expenditure and ensuring compliance and robust risk management in areas such as environment, business continuity planning and supplier management.

Michael Schofer, President North America Crafts – Michael leads the Crafts business and has more than 25 years of international management experience, having worked and lived in South America, North America, Europe and Asia. Prior to his current role he was CEO Crafts where he led the re-organisation of the Coats Crafts businesses and the divestment of Europe Crafts and has also served as Chief Supply Chain officer for Coats. Michael has held leadership roles in General Management, Supply Chain management, IT and large scale business reorganisation.

Andrew Speak, Chief Human Resources Officer – Andy directs global human resources for Coats and is based in the UK. Prior to his appointment Andy worked for BP Lubricants, where he held the role of Global Head of Human Resources, based in Swindon, UK. He brings over 27 years of HR experience to Coats, having worked for blue-chip companies including Bristol-Myers Squibb Pharmaceuticals, Kellogg, PepsiCo and Unilever.

CHAIRMAN'S INTRODUCTION

Mike Clasper
Chairman

'I AM PLEASED TO PRESENT OUR CORPORATE GOVERNANCE REPORT FOR THE YEAR. AN EFFECTIVE GOVERNANCE FRAMEWORK IS EMBEDDED IN OUR ORGANISATION WHICH THE BOARD IS COMMITTED TO AND BELIEVES IS VITAL TO ENSURING THAT THE COMPANY SUPPORTS THE DEVELOPMENT OF A SUSTAINABLE AND SUCCESSFUL BUSINESS.'

Dear Shareholder
The Board is responsible for ensuring that an appropriate governance structure is in place and complies with the 2014 UK Code of Corporate Governance (the Code). I believe that the framework we have established (and which is set out on pages 38 to 40) is appropriate for a Company of our size and nature, and supports the delivery of the Group's strategic objectives whilst also ensuring accountability, transparency and fairness in our dealings with all of our stakeholders, in particular our shareholders, customers, employees and suppliers.

Activity in the year
2016 has seen the cementing of the Coats Group plc Board and during the year we recruited a further Non-Executive Director, Fran Philip, who joined the Board on 1 October 2016 and has over 30 years of apparel merchandising, product innovation and branding experience. Fran's extensive experience in the US apparel industry and relationships with major retailers and brands will support the continued growth in our core Apparel and Footwear business. She has a proven ability of understanding customer requirements, driving innovation and commercialising products; skills which will support the delivery of our goal of becoming the leading value adding partner to the apparel, footwear and accessories industries, as well as supporting new product development in our Performance Materials business.

Simon Boddie joined as Chief Financial Officer and an Executive Director on 4 July 2016 following a recruitment process led by the Nomination Committee.

Paul Forman, Group Chief Executive for the duration of 2016, left Coats on 31 December 2016 by mutual consent and took up the role of Chief Executive at Essentra plc. Rajiv Sharma, who joined Coats in November 2010 and was responsible for the global Industrial business and was appointed an Executive Director in March 2015, became Group Chief Executive on 1 January 2017. This demonstrated a seamless transition of executive control and evidenced the development of internal talent to the most senior executive role.

Following shareholder approval, the Company completed de-listings from both the Australian Stock Exchange and the New Zealand Stock Exchange in the year. As mentioned last year, the Board and the Group see these de-listings as being necessary to deliver long-term value for shareholders.

The Company has complied in full with the main supporting principles of the Code.

Committees
Details of the Group's Committees are set out on pages 38 and 39.

Terms of reference of each Committee are available at **www.coats.com/governance**.

CHAIRMAN'S INTRODUCTION
CONTINUED

Evaluation
The Board has carried out a comprehensive Board Effectiveness Review with an independent consultant, Grand Shearman. Grand Shearman interviewed the Executive and Non-Executive Directors and Group Company Secretary on a one to one basis and observed the operation of the Board, Board Committees and their respective Committee Chairs. The results of the evaluation, which were positive and constructive, have been considered and discussed by the Board and the recommendations are being appropriately incorporated. Further details can be found on page 40.

Key aspects of our Corporate Governance activities are:

Leadership
The Directors believe that the Board has an appropriate balance of diversity, skills, experience, knowledge and independence to satisfy the requirements of good corporate governance.

Compliance
Significant time and resource is given to governance matters by the Board and within the everyday operations of the Group. This ensures compliance within the framework of regulations but is also central to delivering sustainable business success.

Effectiveness
The Board recognises that an effective corporate governance framework is an inherent part of running a business.

Accountability
A key element of ensuring sound governance is guaranteeing an appropriate system of controls and accountability.

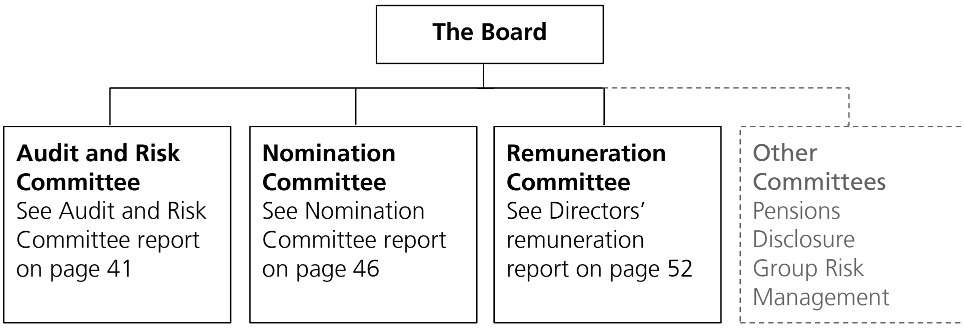
During 2016 and continuing into 2017, the Board has remained, and will remain focussed on:

- long term strategy and strategic acquisitions;
- risks which may materially impact the Group, its strategy and long term viability; and
- the truly global nature of our business, including through overseas site visits and meetings.

Mike Clasper
Chairman

9 March 2017

CORPORATE GOVERNANCE REPORT



Responsibilities

The Board

The Board's role is to provide leadership of the Company, and it is responsible to the shareholders for the long term success of the Company. All matters are reserved for the Board unless specifically listed in the terms of reference for Committees of the Board or where the Board has delegated authority. These can be seen in the governance structure chart above. A delegated authorities policy and schedule are reviewed by the Board annually.

Chairman

Mike Clasper, the Chairman, leads the Board, and is responsible for its effectiveness and governance. He sets the tone for the Company and ensures that the links between the Board and management and between the Board and shareholders are strong. He sets the Board agenda and ensures that sufficient time is allocated to important matters.

Group Chief Executive

Rajiv Sharma succeeded Paul Forman as Group Chief Executive on 1 January 2017. Paul held the role of Group Chief Executive throughout the year and resigned from this position and as a Director of the Company on 31 December 2016.

Rajiv is responsible for the day-to-day management of the Group's operations, for recommending the Group's strategy to the Board and for implementing the strategy agreed by the Board. He is supported in decision making by Simon Boddie, Chief Financial Officer and fellow Executive Director, and by a Group Executive Team (GET) comprised of senior managers, biographical details of whom can be found on page 35.

Senior Independent Director ('SID')

In his role as the SID, Nicholas Bull provides a 'sounding board' for the Chairman and serves as an intermediary for the other Directors when necessary. Nicholas is available to shareholders if they have concerns which contact through the normal channels of Chairman, Group Chief Executive or other Executive Directors have failed to resolve, or for which such contact is inappropriate.

Non-Executive Directors

The Non-Executive Directors provide constructive challenge to executive management, and bring experience and objectivity to the Board's discussions and decision-making. They monitor the delivery of the Group's strategy against the governance, risk and control framework established by the Board. The Non-Executive Directors, led by the SID, are also responsible for evaluating the performance of the Chairman.

The Company Secretary

Stuart Morgan is the Chief Legal & Risk Officer and Group Company Secretary. In his role as Group Company Secretary, Stuart is responsible for working with the Chairman to develop Board and committee agendas and to ensure that all Board procedures are complied with. Stuart also advises the Board on corporate governance, legal, regulatory and compliance matters and developments.

CORPORATE GOVERNANCE REPORT CONTINUED

Other Committees

Pensions

The Committee is an ad hoc committee of the Board, which has been formed specifically to provide advice and make recommendations to the Board on the Group's strategy in relation to the administration of the pension schemes and the robustness of the operating systems around those schemes. The Committee is chaired by Mike Allen, and its other members are Ruth Anderson, Nicholas Bull, and David Gosnell. All other Directors, along with the Group Pensions Director and the Chief Legal and Risk Officer and Group Company Secretary, attend the meetings.

Disclosure

The Committee's primary duty is to determine whether, what and when any Group information needs to be disclosed to the market and to verify such information ahead of its disclosure to the market via a Regulatory Information Service in accordance with the EU Market Abuse Regulation and the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. This includes providing appropriate reassurances to the Board and, as required, individual Directors, and ensuring appropriate records are kept.

The Committee is chaired by Rajiv Sharma and its other members are Simon Boddie and Stuart Morgan.

Group Risk Management

This Sub-committee is responsible for formulating risk management strategies and policies and monitoring risk management throughout the Group.

The Sub-committee is chaired by Rajiv Sharma and includes the Group's Chief Financial Officer, Simon Boddie. It also comprises other senior executives including the Chief Legal & Risk Officer and Group Company Secretary, Group Head of Internal Audit and others who collectively have the skills and experience to discharge the Sub-committee's duties.

Board meetings attendance

Member	Member for period	Coats Group plc Board
Mike Clasper		12 of 12
Paul Forman	Resigned 31 December 2016	12 of 12
Richard Howes	Resigned 6 April 2016	3 of 3
Simon Boddie	Joined 4 July 2016	5 of 5
Rajiv Sharma		12 of 12
Mike Allen		11 of 12
Ruth Anderson		12 of 12
Nicholas Bull		12 of 12
Fran Philip	Joined 1 October 2016	3 of 3
David Gosnell		11 of 12
Alan Rosling		12 of 12

Board support

Each Director has access to the advice and services of the Group Company Secretary. Where necessary Directors may take independent professional advice at the Company's expense. The Board receives regular briefings from the Group Company Secretary on governance, legal and regulatory matters.

CORPORATE GOVERNANCE REPORT CONTINUED

Before each Board meeting, papers are delivered electronically via a secure iPad accessible web portal, which helps to ensure that Directors have time and resources to fulfil their duties. The web portal includes a resource centre providing access to key information.

Time commitment
Each Director is aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. In addition to time spent at Board and Committee meetings, the Directors attend strategy days and participate in Company-related events such as the Global Leadership Conference.

Directors' interests and conflicts
The interests of the Directors (including interests of their connected persons) in the share capital of the Company and its subsidiaries are set out in the Directors' remuneration report on pages 52 to 71.

There is an established process to capture details of any interests that a Director may have which conflict with, or could potentially conflict with, the interests of the Company. The Company's Articles of Association permit the Board to authorise any actual or potential conflicts of interest if considered appropriate. At each meeting the Board considers Directors' conflicts of interest and Directors are reminded of their duty to disclose any conflicts and potential conflicts, as well as any interests in the matters to be discussed at the meeting.

No Director, either during or since the end of the year under review, was or has become interested in any material contract (not being a contract of employment) with the Company or any of its subsidiaries.

Board effectiveness
The Board conducted an externally facilitated Board Effectiveness Review with an independent consultant, Grand Shearman, in the last quarter of 2016. The Board Effectiveness Review encompassed one to one interviews with each Director examining their roles on the Board and its Committees and the operation of the Board and Committees as a whole.

The review examined how the Directors engaged individually and collectively and how each Director could further enhance the effective functioning of the Board and its Committees for the benefit of the Group. The Directors discussed the recommendations at length and they are being appropriately incorporated.

In addition, during the year Nicholas Bull led an assessment of my performance in discussion with other Non-Executive Directors.

Following these reviews, I am satisfied that the Board and its Committees are performing effectively and that the balance of skill, experience, diversity, independence and knowledge of the Group are sufficient to enable the Directors to discharge their respective duties and responsibilities effectively.

UK Corporate Governance Code Compliance Statement
Coats Group plc is a premium listed issuer on the London Stock Exchange. During the year its shares were delisted from the Australian Securities Exchange ('ASX') and the New Zealand Stock Exchange.

For the year ended 31 December 2016, we are pleased to report that the principles of the 2014 UK Corporate Governance Code have been applied and the Company complied in full with the provisions of the Code.

Mike Clasper
Chairman

9 March 2017

AUDIT AND RISK COMMITTEE REPORT

Ruth Anderson
Chairman,
Audit and Risk Committee

The Committee's terms of reference are reviewed annually:

- They can be found online at **www.coats.com/governance**

Committee membership and meetings attended during the year

Ruth Anderson	6/6
Nicholas Bull	6/6
David Gosnell	6/6
Alan Rosling	6/6

'IN 2016 THE AUDIT AND RISK COMMITTEE CONTINUED ITS OVERSIGHT OF THE IMPLEMENTATION OF THE GLOBAL FINANCE FUNCTION KNOWN AS THE FINANCE REVIEW PROGRAMME'

Dear Shareholder
I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 2016. It provides information on our oversight of the Company's financial reporting, its assurance framework and of its systems of risk management and internal controls.

The Committee has an annual work plan linked to the Group's financial reporting cycle, which ensures that it considers all matters as delegated to it by the Board including significant accounting estimates and judgments, which are set out in the table on the following page.

The Committee has also continued to focus on the processes and controls underpinning the Group's Finance Review programme which was initiated in 2014. The Committee has received regular reports on the roll-out to different countries and continues to monitor how lessons learnt are assisting the implementation of standard and consistent global processes.

During the year the Company acquired two new businesses, Fast React Systems Limited and Gotex S.A. and the Committee reviewed the method of accounting applied by management.

I will be available at the Annual General Meeting to answer any questions about our work.

Ruth Anderson
Chairman, Audit and Risk Committee

9 March 2017

Accountability

Membership and meetings
The composition of the Committee and each of the Committee members' biographies can be found on pages 32 to 34. Details of Committee members' attendance at meetings are set out in the table to the left.

Committee responsibilities
The Committee is responsible for monitoring:

- the financial reporting process, the integrity of the financial statements of the Group, and any other formal announcements relating to its financial performance and reviewing significant financial reporting judgments contained in them;
- the effectiveness of the internal financial controls and the internal control and risk management systems of the Company; and
- the Company's policy on the supply of non-audit services by the external auditor.

The Committee is responsible on behalf of the Board for agreeing the terms of engagement of the external auditor, the auditor's remuneration, confirming the auditor's independence and its objectivity as well as monitoring the effectiveness of the external audit process.

The Committee met six times during the year and I report to the Board, as a separate agenda item, on the activity of the Committee and bring key matters to the Board's attention.

All Committee members are considered to be independent and Nicholas Bull and I are considered by the Board to have the recent and relevant financial experience required under the 2014 UK Code of Corporate Governance.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Regular attendees at Committee meetings in the year included the Group Chief Financial Officer, the Head of Financial Control, the Group Head of Internal Audit, the Chief Legal & Risk Officer and Group Company Secretary, together with the external auditor. At most meetings the Group Chairman and Group Chief Executive were also in attendance.

The Committee met regularly with the Group Head of Internal Audit and the external auditor, without management present.

The Head of Secretariat is the Committee's secretary.

Significant accounting judgements and estimates

The Committee considered the following significant accounting judgements and estimates during the year:

Significant financial and reporting matters	How the Committee addressed the issue
Pension matters – valuation of obligations and disclosure	The Committee reviewed the methodology for determining key assumptions underpinning the valuation of liabilities of the Group's most significant pension schemes. The Committee also reviewed in detail the various aspects of the continuing obligations to the Group's ongoing schemes, including the potential impact of the Pension Regulator's investigation, and the appropriateness of provisions for related costs. The Committee is satisfied that these are appropriate.
US environment provision	The Committee has considered at length management's position on the accounting and disclosure implications surrounding the environmental case relating to Lower Passaic River. Following the delivery of the EPA's Record of Decision in March 2016, the Committee considered whether subsequent events, including those impacting other parties considered to be responsible for the most significant contamination in the river, triggered the requirement to re-measure the level of provisioning previously established. The Committee is satisfied that there is no requirement to re-measure the provision at 31 December 2016 and that the disclosures provided are appropriate.
The carrying value of intangible assets	The Committee reviewed management's process and methodology for assessing the carrying value of goodwill and brands. The cash flow forecasts for the Group's cash generating units were also considered with the key assumptions, resulting headroom and the sensitivities applied by management in forming its assessment that no impairment charges were required. The Committee is satisfied with management's assessment.
The carrying value of tangible assets	The Committee reviewed, and discussed in some detail, the evidence presented by management of its impairment assessment of tangible assets including the related business plans to support the carrying values. The review specifically focused on management's assessment of assets held in Brazil following challenging economic and trading conditions. The Committee was satisfied with management's conclusion that there was no impairment of tangible assets during 2016.
Taxation	The Group operates in numerous jurisdictions around the world, with different regulations applying in different territories. This complexity together with intra-group cross-border transactions give rise to inherent risks. In addition to reviewing the Group's effective tax rate, the Committee also considered the Group's tax provisions and deferred tax asset recognition. The Committee is satisfied with the approach adopted by management as reflected in the financial statements in the financial statements.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Post balance sheet event
The Committee considered management's assessment of the accounting treatment for the tornado in Albany which occurred in January 2017 and the completion of the Settlement Deeds for the Coats and Brunel Pension schemes in February and is satisfied that both of these events are non-adjusting post balance sheet events.

Financial reporting
The Committee's primary responsibility in relation to the Group's financial reporting is to review with both management and the external auditor the half-year and annual financial statements including, amongst other matters:

- the accounting policies and practices adopted;
- material areas in which significant judgments have been applied or where significant issues have been discussed with the external auditor; and
- the clarity of disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including the use, prominence and balance of financial Alternative Performance Measures compared to their closest GAAP equivalents.

The external auditor also reviewed the accounting treatment of all significant accounting judgments and estimates.

Going Concern and Viability Statements
The Committee reviewed two papers prepared by management setting out their methodology and assumptions underlying their conclusion that the Board could make the Going Concern and Long Term Viability Statements. The Committee discussed these in detail with management and with the external auditors and reported to the Board that management had followed sound processes in reaching their conclusion in relation to both statements, as confirmed by the external auditor. The Board gave this further consideration and was satisfied that it could make both statements.

Internal audit
The Group Head of Internal Audit agrees the Internal Audit department's programme of work annually in advance with the Committee, and at each Committee meeting, the Committee reviews key findings from Internal Audit reports and monitors the rate at which actions agreed with management are implemented.

The Committee considered the overall performance of the Group Internal Audit function, their independence and objectivity and, having received input from management also, was satisfied that the experience and expertise of the function is appropriate for the Company.

Internal control and risk management
The Board has overall responsibility for determining the nature and extent of its principal risks and the extent of the Group's risk appetite, and for monitoring and reviewing the effectiveness of the Group's systems of risk management and internal control. The Principal Risks and uncertainties facing the Company are addressed in the Strategic report and in the table on pages 22 to 24 earlier in this report.

The Board has delegated to the Committee the responsibility for monitoring the effectiveness of the systems of risk management and internal control.

The Committee receives reports from management, Internal Audit and the external auditor relating to the effectiveness of the control environment. The reporting process ensures that all business units regularly report on internal control and risks through the submission of self-assessments every six months.

The Committee also reviews a report from the Controllership function which provides greater focus on the operational effectiveness of internal controls.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

The Committee and the Board are satisfied that these systems operate effectively in all material respects and provides reasonable assurance regarding the Group's financial condition and operational.

Whistleblowing procedure

Whistleblowing is a standing item on the Committee's agenda. The Company has a whistleblowing procedure which enables employees who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of assets or violations of any Company policy to report these confidentially. There were 30 incidents of whistleblowing during the year, all of which were investigated, with disciplinary action taken where there was evidence of misdemeanour.

External audit

Independence

The Committee is responsible for reviewing the independence of the Company's auditor, Deloitte LLP, agreeing the terms of engagement with them and the scope of their audit. Deloitte has a policy of partner rotation, which complies with regulatory standards, and, in addition, Deloitte has a structure of peer reviews for its engagements, which are aimed at ensuring that its independence is maintained.

Maintaining an independent relationship with the Company's auditor is a critical part of assessing the effectiveness of the audit process. The Committee has agreed the Company's policy on non-audit fees and regularly reviews the level of audit and non-audit fees paid to Deloitte. There is also a policy for ensuring significant assignments are not awarded to the auditor without first being subject to the scrutiny of the Committee. The key principles of the policy on non-audit services are:

Summary of non-audit services policy

- The Committee has approved a list of all permitted non-audit services which are allowed under UK statutory legislation. These include audit-related services such as reviews of interim financial information or any other review of accounts required by law to be provide by the auditor. The list also includes certain tax compliance and advisory services for Group subsidiaries incorporated outside the European Union.

  During 2016, the external auditor provided services in relation to the Group's interim results and tax advisory services outside the European Union.

- The Committee has also approved a list of prohibited services which include services remunerated on a success fee or participation in activities normally undertaken by management.

- Any service that is not on the list of permitted services if in excess of US$15,000 requires the approval of the Committee.

The external auditor has confirmed to the Committee that they did not provide any prohibited services and that they have not undertaken any work that could lead to their objectivity and independence being compromised.

The non-audit services supplied by the external auditor during the year can be found in note 5 of the financial statements. The non-audit services primarily relate to tax compliance and advisory services in India. In the case of each engagement, it was considered appropriate to engage Deloitte LLP for the work because of their existing knowledge and experience from prior Group engagements. The Committee discussed with, and received confirmation from, the external auditor that the audit team have not relied on the work performed by their tax teams as part of the audit and the objectivity and independence has been safeguarded.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Audit tender

Deloitte LLP was appointed the Company's auditor in 2003. The Company has established the policy that the external audit contract be put out to competitive tender at least every ten years. However, given the significant change programme that is the Finance Review being implemented widely in the Group, the Company has decided not yet to tender the audit, as permitted by the transitional provisions under the EU Statutory Audit Directive but it will have to do so no later than 2023. In 2016, Tim Biggs was appointed as the lead audit engagement partner. He will rotate off the audit team after the 2020 year-end. The Company will continue to consider annually the timetable for audit tendering.

There are no contractual obligations that restrict the Company's choice of external audit firm.

Assessment of audit process

The scope of the external audit is formally documented by the auditor. They discuss the draft proposal with management before it is referred to the Committee who reviews its adequacy and holds further discussions with management and the auditor before final approval.

The Committee considered the performance of the Auditor and their independence and objectivity and recommended to the Board that it should recommend to the Shareholders the reappointment of Deloitte LLP as auditor for the year ending 31 December 2017.

Assessment of the performance of the Committee

During the year a Board evaluation, including an evaluation of the performance of the Committee, was carried out by an independent consultant, Grand Shearman. The evaluation was positive about the effectiveness of the Committee but also highlighted areas for improvement which will be actioned during 2017.

The Audit and Risk Committee report was approved by the Board of Directors on 9 March 2017 and signed on its behalf by:

Ruth Anderson
Chairman,
Audit and Risk Committee

9 March 2017

NOMINATION COMMITTEE REPORT

Mike Clasper
Chairman,
Nomination Committee

The Committee's written terms of reference are available via **www.coats.com/governance**

'I AM PLEASED TO PRESENT THE ANNUAL REPORT OF THE NOMINATION COMMITTEE.'

Dear Shareholder
2016 was a year of exceptional change in the Board composition and these changes were managed very effectively by the Committee. There have been several changes in the Board of Directors and Executive Management during the year, arising from the recruitment and appointment of an additional Non-Executive Director, Fran Philip, and the appointments of a new Chief Financial Officer and Executive Director, Simon Boddie, and a new Group Chief Executive, Rajiv Sharma. The new Group Chief Executive is an internal appointment, which evidences the Committee's strong focus on senior executive as well as Board-level talent development and succession planning.

The Committee continues to ensure that the Board has the right balance of skills, experience, diversity and independence. Reviewing our succession plans and the composition of the Board are an essential part of this process. During the year, we have again considered and reviewed plans for the continued development of key personnel within the business to ensure an ongoing pipeline of executive talent.

The Committee is of the view that the plans in place continue to position us well to deal with succession at Board and senior management levels in the future. We will continue to keep succession planning and talent development under close review as part of our annual agenda.

I welcome Fran Philip and Rajiv Sharma to the Committee as new members of the Committee.

Mike Clasper
Chairman,
Nomination Committee

9 March 2017

NOMINATION COMMITTEE REPORT CONTINUED

Committee membership and meetings attended during the year

Mike Clasper	9/9
Mike Allen	8/9
Ruth Anderson	8/9
Nicholas Bull	9/9
David Gosnell	8/9
Alan Rosling	8/9
Paul Forman	7/9
Fran Philip	1/1

Composition and meetings
The Committee is chaired by Mike Clasper and its members comprise all of the Non-Executive Directors along with the Group Chief Executive. The Committee met on nine occasions during 2016 to discuss proposed appointments, succession and development and to evaluate the balance of skills, experience, diversity, independence and knowledge on the Board.

Appointments
The Committee members recommended the appointment of Fran Philip as a Non-Executive Director of the Company during the year. The appointment process involved the services of an executive search agency, the Inzito Partnership, which has no other connection with the Company. The Inzito Partnership provided a shortlist of candidates who were interviewed by members of the Committee, following which the recommendation to appoint Fran Philip was submitted to and approved by the Board.

The Committee successfully coordinated the search for a new Chief Financial Officer following the resignation of Richard Howes. The Committee engaged an executive search agency, Russsell Reynolds, which had an understanding of the Company, has specific expertise in recruitment of Finance Directors and has a breadth of coverage within the UK Plc Chief Financial Officer environment. The Committee interviewed a short list of candidates which resulted in Simon Boddie being appointed as Chief Financial Officer and an Executive Director with effect from 4 July 2016.

The former Group Chief Executive, Paul Forman, left the Group on 31 December 2016 by mutual consent to take up the role of Chief Executive at Essentra plc. During the year the Committee instigated a search for a new Group Chief Executive and the Inzito Partnership were instructed to conduct the recruitment and benchmarking exercise. The Committee members briefed Inzito and set out the succession process and the role specification. Following a review of both internal and external candidates, the recommendation to appoint Rajiv Sharma as Group Chief Executive was submitted to and approved by the Board.

Diversity
When searching for candidates for Board appointments, the Committee takes into account a number of factors, including the benefits of diversity, of which gender diversity is an important element, and the balance of the composition of the Board. The overriding requirement is to ensure that recommendations for appointments are made on merit against objective criteria, and that the best candidates are put forward for Board appointments. The Committee also pays close regard to these factors when considering and reviewing senior executive talent development and succession plans.

Succession planning
The Committee is responsible for ensuring that appropriate succession and development plans are in place for appointments to the Board. We are satisfied that the succession planning structure in place is appropriate for a company of the size and nature of the Group, and accords with our FTSE 250 ambitions. Succession planning arrangements will continue to be kept under regular review going forward.

Election of Directors
In accordance with provision B.7.1 of the Code and the Company's Articles of Association, all Directors will offer themselves for election or re-election by shareholders at the 2017 Annual General Meeting ('AGM').

Mike Clasper
Chairman,
Nomination Committee

9 March 2017

UK CORPORATE GOVERNANCE CODE REPORT

Compliance with the 2014 UK Corporate Governance Code (the Code)

A1 The role of the Board
The Board met formally twelve times during the year and a number of sub-committee meetings were also constituted to deal with matters such as approval of the Trading Statement, settlement of the heads of terms of the pensions matter with certain Trustees, and the final approval of the interim and half year results. In addition, several Board meetings were devoted exclusively to discussions on the Group's strategy.

The Board's agenda is set by the Chairman and deals with those matters specifically reserved to the Board including matters relating to the Group's strategic plan, financial matters and corporate governance policies. Matters delegated to the Group Chief Executive and executive management include managing the Group's business in line with the strategic plan and approved risk appetite, and responsibility for the operation of the internal control framework.

Each year the Board agrees a schedule of regular business, financial and operational matters to be addressed by the Board and its Committees during the course of the year and this ensures that all areas for which the Board has responsibility are reviewed.

The Board's standard agenda covers standing items, such as Health & Safety, a revolving review of principal risks, pensions and financial matters. When relevant, M&A and specific strategic and financial projects were considered. The below list shows some of the other matters considered by the Board in the year.

Noteworthy matters considered by the Board in 2016
- Major projects and M&A activity
- Capital Structure
- Dividend Policy
- Risk policies and general risk review
- Corporate Responsibility
- Market Abuse Regime
- Environmental Matters
- Medium Term Plan
- Review of Market Goals
- Investor Relations
- Brexit
- 2017 Budget
- Year end and half year results

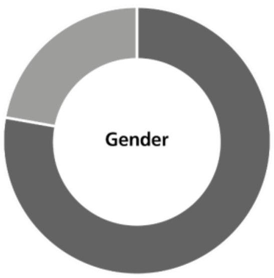
Directors are expected to attend all meetings of the Board, and the Committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties as Directors. The Directors were located in the UK, USA, New Zealand and Hong Kong and this geographical diversity meant that it was not always possible for every Director to attend all Board and Committee meetings in person. In the event that Directors were unable to attend a meeting, they were given time to comment on papers to be considered at the meeting and discussions were held in advance with the Chairman so that their contribution could be included in the wider Board discussion.

In addition to the formal Board meetings, the Chairman seeks to ensure that he meets on a periodic basis with the Non-Executive Directors without the Executive Directors present. These meetings support the constructive contribution of the Non-Executive Directors, and allow the Chairman to ensure that all views are taken into account and aired, as appropriate, at full Board meetings. All Directors are aware that, should they have concerns about the way the Board operates, those concerns should be raised and will be recorded within the minutes. No such concerns were raised during the reporting period.

UK CORPORATE GOVERNANCE CODE REPORT CONTINUED

- 75% Independent NEDs
- 25% Executive Directors

- 86% 0–3 years
- 14% 3–6 years



- 78% Male
- 22% Female

A2 Division of responsibilities
The separate roles of the Chairman and Group Chief Executive are clearly defined and documented in writing and approved by the Board. Mike Clasper, the Chairman, is responsible for leading the Board while Rajiv Sharma, who took over from Paul Forman as Group Chief Executive on 1 January 2017, is responsible for the day-to-day management of the Company within the strategy set by the Board.

A3 The Chairman
The Chairman is responsible for leading the Board and ensuring its effectiveness. In conjunction with the Group Company Secretary, he sets the agendas for meetings, manages the meetings, administers the meeting timetable and encourages an open and constructive dialogue during the meetings.

A4 Non-Executive Directors
The Board is strengthened by an open and constructive dialogue in the boardroom and the Chairman actively invites the views of all Board members. The Chairman is available to the Non-Executive Directors and, over the course of the year, the Non-Executive Directors have met in the absence of the Executive Directors and also in the absence of the Chairman, when appropriate.

B1 The composition of the Board
The Nomination Committee is responsible for reviewing the composition of the Board and making recommendations for appointments to the Board. The Committee considers the balance of skills, experience, diversity and knowledge needed in order to enhance the Board and support the Company in the execution of its strategy and promote the success of the Company. Details of the work undertaken by the Nomination Committee are set out on pages 46 and 47.

The Board aims to maintain a balance of independence, tenure, skills and experience.

As at the date of this report, the Board comprises the Chairman, six Non-Executive Directors (all of whom are considered to be independent) and two Executive Directors. The Board is therefore in compliance with the requirement of the Code that, excluding the Chairman, at least half the Board should comprise independent Non-Executive Directors.

B2 Appointments to the Board
The Nomination Committee is responsible for leading the process of appointing new Directors to the Board. The Committee is committed to ensuring that all appointments are made on merit above all else with due regard for the benefits of all types of diversity, including gender.

B3 Commitment
The Non-Executive Directors' letters of appointment set out the time commitment expected from them. This time commitment is reviewed regularly in the light of the strategic and operational issues arising through the year. External interests, which may impact existing time commitments, must be agreed with the Chairman and the Board. The significant commitments of each of the Directors are included in the Board biographies on pages 32 to 34.

B4 Development
The Board places great value on the inductions that are offered to new Non-Executive Directors and the ongoing training opportunities made available to all Board members.

On joining the Board, all Directors are offered a thorough and tailored induction programme, the key elements of which comprise meetings with Executive Directors and senior management across the Group, site visits, specific training relating to current issues affecting the Group, meetings with advisers, provision of training material and other documents.

The Chairman is responsible for reviewing the training needs of each Director, and for ensuring that the Directors continually update their skills and knowledge of the Company. All Directors are advised of changes in relevant legislation and regulations and changing risks, with the assistance of the Company's advisers where appropriate. The Directors are also provided with regular corporate governance updates to highlight changes in governance regulations and best practice. During the year, the Directors visited the Group's operations and one of its customers in Sri Lanka and visited the premises of the newly acquired Fast React Systems Limited in Derby.

UK CORPORATE GOVERNANCE CODE REPORT CONTINUED

B5 Information and support
Procedures are in place to ensure that Board members receive accurate and timely information via a secure electronic portal. All Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Chief Legal & Risk Officer and Group Company Secretary who is responsible for providing advice on corporate governance matters to the Board.

In conjunction with the Group Company Secretary, the Chairman ensures that all Directors receive papers and other information relevant to matters to be discussed at Board meetings at least one week before the meeting. As Directors were, during the reporting period, situated in the UK, New Zealand, Hong Kong and the USA, suitable communication and reporting systems have been established which enable them to monitor, on a timely basis, the Group's activities.

Senior management and professional advisers are invited to attend Board and Committee meetings. Where appropriate, they contribute to discussions and advise members of the Board or its Committees on particular matters. The involvement of the senior management at Board and Committee discussions strengthens the relationship between the Board and its operating business and helps to provide the Board with a greater understanding of operations and strategy.

B6 Evaluation
The effectiveness of the Board has been discussed informally by the Chairman and Non-Executive Directors and no issues have been identified. The Board determined that an externally facilitated evaluation would be appropriate in 2016 and this review was carried out by independent consultant. Details of the evaluation are set out on page 40.

B7 Re-election
All Directors were subject to shareholder re-election at the 2016 AGM. All Directors will be subject to shareholder election or re-election at the 2017 AGM.

C1 Financial and business reporting
The Strategic report can be located on pages 1 to 31, and this sets out the performance of the Company, the business model, strategy, and the risks and uncertainties relating to the Company's future prospects.

C2 Risk management and internal control
The Board sets the Company's risk appetite and annually reviews the effectiveness of the Company's risk management and internal control systems. A description of the principal risks facing the Company is set out on pages 22 to 24. The Annual Report also sets out how the Directors have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate (the 'viability statement'). The activities of the Audit and Risk Committee, which assist the Board with its responsibilities in relation to financial reporting, audit matters and the Group's internal control and risk management framework and processes, are set out on pages 41 to 45.

C3 Audit and Risk Committee and auditors
The Audit and Risk Committee comprises four independent Non-Executive Directors, two of whom are considered to have recent and relevant financial experience, and the Board delegates a number of responsibilities to the Audit and Risk Committee including oversight of the Group's financial reporting processes, internal control and risk management framework, and the work undertaken by the external and internal auditors.

The Audit and Risk Committee's terms of reference are available on the website (www.coats.com/governance). The Audit and Risk Committee Chairman provides regular updates to the Board on key matters discussed by the Committee.

UK CORPORATE GOVERNANCE CODE REPORT CONTINUED

A full version of the UK Corporate Governance Code can be found on the Financial Reporting Council's website: www.frc.org.uk.

D1 The level and components of Remuneration
The Company aims to reward employees fairly and the Remuneration Policy is designed to promote the long-term success of the Company whilst aligning both the interests of the Directors and shareholders.

D2 Procedure
The Remuneration Committee is responsible for setting the remuneration for all Executive Directors. Details of the composition and the work of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 52 to 71.

E1 Dialogue with shareholders
Board members take an active role in engaging with shareholders, both in private meetings and in wider forums such as the AGM. The Chairman and the Senior Independent Director aim to meet some of the major institutional investors at least once per year and are available to meet other investors on request. The Chairman shares feedback from these meetings with the wider Board.

The Group has a dedicated Investor Relations function and a website focused on information and updates relevant to public shareholders (www.coats.com/investors).

The Board receives regular updates on investor communication activity, changes to the shareholder register and analysis of share price performance, and the Chairman ensures that any views expressed by shareholders are communicated to the Board at the earliest opportunity.

The Board considers transparency and openness to be a key feature of its stated strategy and endeavours to ensure that both shareholders and the market remain appropriately informed and that regular updates are released to the market.

Presentations are made to analysts and shareholders covering the Company's Preliminary Results and its half year results each year.

E2 Constructive use of General Meetings
The Board values the AGM as an important opportunity to engage with investors. Attendees have the opportunity to ask questions of the Board and are invited to meet the Board following the formal business of the meeting. This interaction helps the Board to develop an understanding of the views of the Company's shareholders. At its 2016 AGM, the Chairman provided an additional report to shareholders.

Copies of these presentations and reports and the results of proxy voting at the 2016 AGM were released to the markets and can be found on the Company's website (www.coats.com).

This year's AGM will be held on 17 May 2017 in London.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

David Gosnell
Chairman,
Remuneration Committee

Committee membership and meetings attended during the year

David Gosnell (Chairman)	5/5
Mike Allen	5/5
Fran Philip (Joined 1 October 2016)	3/3
Alan Rosling	5/5

'ON BEHALF OF THE REMUNERATION COMMITTEE I AM PLEASED TO PRESENT THE DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2016'

Annual statement by the Chairman of the Remuneration Committee

Dear Shareholder
This report consists of two main sections following my introduction here. The first section contains the Annual Report on Remuneration for 2016 and the second section is a Remuneration Policy which sets out the terms of the policy that will be submitted for shareholder approval at the 2017 AGM.

Remuneration Policy
The current Remuneration Policy was approved by shareholders in May 2014 when the Company was still Guinness Peat Group plc. The year ended 31 December 2016 is the first full year that the Remuneration Policy has applied to Executive Directors as the Company appointed its first Executive Directors in March 2015. A Resolution to approve a new policy for a further three year period will be submitted at the 2017 AGM.

On behalf of the Committee I did consult with shareholders regarding the amendments that are proposed to the new remuneration policy and was pleased to receive some constructive and helpful comments. In summary we are proposing minor changes to the Remuneration Policy that we believe will ensure the policy remains fully aligned to external best practice and aligned with shareholder's interests and will ensure that the Company is able to recruit and retain the talent that it needs to meet its objectives. The key changes that we are proposing to the policy are;

- An increase in the proportion of annual bonus that Executive Directors must defer in shares for three years from 25% to 33%.
- A higher target level of shareholding requirement for the Executive Directors from 100% to 200% of salary.
- Confirmation of a requirement that any shares that vest in relation to a Long Term Incentive award must be held for a two-year period in addition to the three-year performance period. This requirement has applied to awards granted since July 2016.
- An increase in the maximum bonus opportunity that may be awarded to Executive Directors under the terms of the policy. Please note that there is no intention to increase the bonus opportunity that is applied to Executive Directors for 2017 which will remain unchanged at 100% of salary. This change in policy ceiling is intended to give the Committee flexibility should it be required in the future.

Executive Directors appointments
During the year the Committee considered the appointment terms and leaving terms for both the Chief Executive Officer and Chief Financial Officer. Paul Forman stepped down from the Company as part of a planned succession process and has fully supported the appointment of Rajiv Sharma as successor. Paul's achievements have been considerable during his tenure at Coats as the Company developed, completed and embarked on a successful transformation and growth strategy. The Committee determined that Paul Forman should be regarded as a 'Good Leaver' for the purposes of existing Long Term Incentive awards although he would not be entitled to any severance pay. Further details are set out in this report. I am pleased to confirm that the appointment terms for Rajiv Sharma as CEO and Simon Boddie as CFO were managed within the framework of the current Remuneration Policy. Rajiv Sharma, who has been with Coats since November 2010 and has been an Executive Director since March 2015 will take Coats forward to the next stage of its development. Rajiv will relocate to the United Kingdom during 2017 and will be provided with temporary relocation support for a limited period.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

Annual bonus awards
During the year the Company achieved significant levels of profit growth and effectively managed tight working capital controls which improved the generation of Free Cash Flow.

The annual bonus profit measures for 2016 both achieved their stretch targets achieving maximum payout while the cash measure, negatively impacted by a challenging year for Crafts, achieved 40% of the maximum payout.

Long Term Incentive awards
During the Company's transition from Guinness Peat Group plc to Coats Group plc the Company had granted Long Term Incentive awards for the performance period 1 January 2014 to 31 December 2016. The awards, which were granted to Paul Forman and Rajiv Sharma prior to their appointment as Executive Directors, were subsequently linked to shares under an interim plan arrangement that applied to the subsidiary company Coats Limited. I am pleased to confirm that during 2016 we have seen a continuation of the improvement in the Company's profit growth, cash generation and a significant increase in the Company's share price and subsequently 43.6% of the 2014 LTIP Awards vested to Paul Forman and Rajiv Sharma. Full details of these awards are provided in Annual Report on Remuneration.

I am pleased to welcome Fran Philip to the Committee who joined the Board on 1 October 2016.

On behalf of the Board I would like to thank shareholders for their continued support.

David Gosnell
Chairman,
Remuneration Committee

9 March 2017

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

Annual Report on Remuneration
This Annual Report on Remuneration has been prepared in accordance with the relevant provisions of the Companies Act 2006 and as prescribed in The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013 (the Regulations). Where indicated data has been audited by Deloitte LLP.

The Annual Report on Remuneration will be subject to an advisory vote at the AGM on 17 May 2017. The Remuneration Policy applicable to the year ended 31 December 2016 was approved by shareholders at the AGM on 22 May 2014 and can be found in the Corporate Governance section at www.coats.com. An updated and amended three-year policy must be submitted for shareholder approval at the 2017 AGM; the updated policy is contained in the section after the Annual Report on Remuneration.

Executive Directors
Four Executive Directors were employed during 2016. Richard Howes left the Company on 6 April 2016. Simon Boddie was appointed as his successor and was appointed to the Board on 4 July 2016. Paul Forman and Richard Howes were employed by one of the Coats group of companies prior to their appointment to the Board; in accordance with the Remuneration Policy approved by shareholders on 22 May 2014 any existing legacy terms and conditions of existing service contracts or remuneration terms continued to apply after their appointment.

Single total figure for Executive Directors' remuneration for 2016 (audited information)

	Base salary £000		Benefits £000		Annual incentive (cash & shares) £000		LTIP £000		Pension £000		Total £000	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Simon Boddie	**197.4**	–	**11.5**	–	**156.6**	–	**–**	–	**39.5**	–	**405.0**	–
Paul Forman	**553.2**	450.1	**38.6**	21.2	**432.0**	395.7	**552.1**	–	**184.4**	150.0	**1,760.3**	1,017.0
Richard Howes	**97.9**	301.2	**8.5**	13.3	**–**	276.9	**–**	–	**19.6**	60.2	**126.0**	651.6
Rajiv Sharma	**540.6**	389.9	**281.6**	216.6	**429.3**	352.5	**410.5**	–	**108.1**	77.4	**1,770.1**	1,036.4
Total	**1,389.1**	1,141.2	**340.2**	251.1	**1,017.9**	1,025.1	**962.6**	–	**351.6**	287.6	**4,061.4**	2,705.0

The figures in the table above have been calculated on the basis of the following:

- The figures for Rajiv Sharma include the value of additional benefits that were provided to him following his relocation and secondment from Singapore to Dubai which commenced in June 2015. The contractual terms of the secondment were confirmed by his employer in December 2014 prior to his appointment as an Executive Director. The benefits figure for Rajiv Sharma includes an international allowance of $100,000 per annum which is paid as cash and the full cost of paying in advance a one-year lease and utilities cost of $219,126 per annum for his accommodation in Dubai.
- Rajiv Sharma's remuneration arrangements are determined and paid in US dollars and the figures for 2016 have been converted to UK currency in the table above at an average annual exchange rate of $1 = £0.738. The weakening of the UK pound relative to the US dollar means that the 2016 Single Figure remuneration data for Rajiv Sharma is 12% higher in 2016 than it would have been at 2015 exchange rates. The prior year 2015 data shown above has not been restated for changes in exchange rates.
- The figures above reflect the appointment of Paul Forman, Richard Howes and Rajiv Sharma to the Board on 2 March 2015. Richard Howes resigned on 6 April 2016. Simon Boddie was appointed on 4 July 2016.
- Benefits: is the value of all taxable benefits in kind including a car allowance, private medical insurance and life insurance. In the case of Rajiv Sharma this also reflects the additional benefits provided in connection with his secondment to Dubai as described above.
- Annual bonus (cash and shares): the total value of the annual incentive that is attributable to the time spent during 2016 as an Executive Director is shown in the table. One quarter of any bonus outcome is compulsorily awarded in shares under the terms of the Deferred Annual Bonus Plan that was approved by shareholders at the AGM in May 2014.
- Long Term Incentive Plan (LTIP): the value of any awards that were granted during a period as an Executive Director or which contained a performance period that ended during 2016. The LTI award value shown reflects the vesting of the LTI award that was granted to Paul Forman and Rajiv Sharma prior to their appointment to the Board and is in respect of the performance period 1 January 2014 to 31 December 2016. The value shown represents the number of shares that vest multiplied by the mid-market share price of the award as at the vesting date of 24 February 2017 which was £0.5475.
- Pension: represents the value of all employer contributions to any pension plan or cash payments paid in lieu of a pension benefit. No Executive Director participates in any defined benefit pension arrangement.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

- Paul Forman is a Non-Executive Director of Tate & Lyle plc. He received total fees of £64,275 during the year to 31 December 2016. Simon Boddie is a Non-Executive Director of PageGroup plc and received fees of £33,000 during the period from appointment to 31 December 2016. The policy of the Board is that Directors are entitled to retain any fees in respect of external appointments.

Annual bonus outcome 2016 (audited information)
The annual bonus for 2016 was determined in accordance with the details provided in the 2015 Directors' remuneration report. Details of the bonus measures and opportunities are provided in the table below.

All figures are as a % of salary

Annual bonus 2016	Weighting		Bonus opportunity			Performance achieved in 2016	
Performance Measure		Threshold	Target	Maximum	Simon Boddie	Paul Forman	Rajiv Sharma
Attributable Profit (AP)	25.0%	5.1%	12.5%	25.0%	25.0%	25.0%	25.0%
Earnings Before Interest and Taxation (EBIT)	25.0%	7.4%	12.5%	25.0%	25.0%	25.0%	25.0%
Net Working Capital as % of Sales (NWC)	30.0%	0%	15.0%	30.0%	12.0%	12.0%	12.0%
Individual objectives	20.0%	0%	10.0%	20.0%	16.3%	15.0%	16.3%
Total	100.0%	12.5%	50.0%	100.0%	78.3%	77.0%	78.3%

The measures were selected to incentivise a balance of outcomes that reflected the strategic priorities for the Group. In particular these were to increase the attributable profit (profit after tax) that was available for shareholders, to achieve strong growth in trading profit through continued efficiency and growth in EBIT performance, ensure consistent and increasing level of cash generation from operations through working capital management, and achieve certain key strategic objectives that were specific for each Executive Director.

Annual bonus 2016	Weighting		Bonus targets		
Performance targets		Threshold	Target	Maximum	Performance achieved in 2016
AP ($m)	25.0%	53.5	59.7	68.7	72.5
EBIT ($m)	25.0%	136.3	143.2	157.5	159.4
NWC (% of external sales)	30.0%	14.7%	14.2%	13.7%	14.3%
Individual objectives	20.0%		Strategic objective		See table above

The targets above were established on a basis which excludes the impact of certain exceptional items and the impact of any exchange rate fluctuations during the year. Targets are set in relation to Budget for the upcoming financial year, and were adjusted by the Committee so that they reflected continuing businesses only and excluded the impact of the closure of the Crafts UK business. For the 2016 annual bonus challenging individual objectives were established by the Committee for each Executive Director that reflected activities and initiatives intended to improve the performance of the Group. The objectives established and assessed for 2016 included the development and execution of the operational strategy for the Crafts and Latin America businesses, actions to address the skill, resourcing and technology requirements for the Industrial Division, the further development of the organic and inorganic growth strategy for the Speciality business and organisational improvement objectives directed at the Procurement and Finance functions.

Long Term Incentive award vesting
As disclosed in the 2015 Annual Report on Remuneration Paul Forman, Richard Howes and Rajiv Sharma were granted Long Term Incentive Awards in the form of nil cost options over shares in respect of the performance period 1 January 2014 to 31 December 2016 (referred to as LTIP 2014). The awards were granted prior to their appointment as Executive Directors of Coats Group PLC under the terms of the Coats Limited Interim Long Term Incentive Plan. The performance measures were based upon the Total Shareholder Return Performance (TSR) of Coats Group plc and compound annual growth (CAGR) in Attributable Profit and cumulative Free Cash Flow relating to Coats Limited. This plan was an interim plan and intended to cover the period of transition arising from the period when Coats Limited was a subsidiary of Guinness Peat Group plc. Awards granted to Richard Howes lapsed following his resignation from the Board.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

The achievement of the Long Term Incentive performance measures and the consequent vesting of the award is shown in the table below.

LTIP 2014: Performance period 1 January 2014 to 31 December 2016

Measure	Weighting	Threshold	Mid	Maximum	Actual
Compound Annual Growth in Attributable Profit	20%	17.4%	20.8%	27.2%	22.0%
Vesting % of total award		5%	10%	20%	11.9%
Cumulative Free Cash Flow over 3 years	40%	$185m	$210m	$230m	$189.2m
Vesting % of total award		10%	25%	40%	12.5%
Total Shareholder Return versus the FTSE250 excluding investment trusts	40%	Median	62.5 Percentile	Upper Quartile	58.0 Percentile
Vesting % of total award		10%	25%	40%	19.2%
Total	100%	25%	60%	100%	43.6%

Share awards granted in 2016
The following share awards were granted to Executive Directors during the financial year ended 31 December 2016.

The targets for achieving minimum performance for each measure, where these apply, are shown in the tables below.

Coats Group plc Long Term Incentive Plan

Executive Director	Date of grant	Number of options awarded	Face value at award date	Award value as a % of salary	Share price to calculate no of shares	% vesting for minimum performance	Performance Period	Vesting date
Simon Boddie	29-July-16	1,724,137	£500,000	125%	£0.2900	25%	1 Jan 2016 to 31 Dec 2018	29-July-19
Paul Forman	26-Feb-16	3,240,594	£818,250	150%	£0.2525	25%	1 Jan 2016 to 31 Dec 2018	26-Feb-19
Rajiv Sharma	26-Feb-16	2,908,071	£734,288	150%	£0.2525	25%	1 Jan 2016 to 31 Dec 2018	26-Feb-19

Coats Group plc Deferred Bonus Plan

Executive Director	Date of grant	Number of options awarded	Face value at award date	Award deferred cash value as a % of salary	Share price to calculate no of shares	Performance Period	Vesting date
Paul Forman	26-Feb-16	470,154	£118,714	22%	£0.2525	None	26-Feb-19
Richard Howes	26-Feb-16	328,994	£83,070	23%	£0.2525	None	26-Feb-19
Rajiv Sharma	26-Feb-16	449,386	£113,469	22%	£0.2525	None	26-Feb-19

The share price used to calculate the number of options awarded under the terms of the Coats Group plc Long Term Incentive Plan and the Coats Group plc Deferred Annual Bonus Plan is based on the mid-market closing price for the day immediately preceding the grant date, which was £0.2525 for 26 February 2016 and £0.2900 for 29 July 2016.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016 CONTINUED

Coats Group plc Long Term Incentive Plan

Awards were granted on 26 February 2016 and 29 July 2016 as nil cost options under the terms of the Coats Group plc Long Term Incentive Plan that was approved by shareholders on 22 May 2014. The LTIP awards will vest, subject to the achievement of performance measures, on the third anniversary of the date of grant. The notional value of any dividends paid on any vested share during the period from grant to vesting is payable as a cash sum.

Coats Group plc Deferred Annual Bonus Plan

For all Executive Directors one quarter of the bonus outcome relating to the financial year 2015 was awarded in the form of nil cost options during the year. The awards were granted on 26 February 2016 under the terms of the Deferred Annual Bonus Plan that was approved by shareholders on 22 May 2014. Awards are not subject to additional performance measures but are subject to clawback in certain circumstances such as gross misconduct or a material misstatement of results.

Long Term Incentive awards performance measures

The performance measures applicable to awards granted in respect of the three year performance period that commenced on 1 January 2016 (LTIP 2016) are shown below. The table on the previous page reflects the performance measures for the award that relates to the three year performance period that ended on 31 December 2016 (LTIP 2014).

LTIP 2016 Measures	Weighting	Threshold	Mid	Maximum
Compound Annual Growth (CAGR) in Earnings Per Share	40%	5%	12.5%	20%
Vesting % of total award		10%	25%	40%
Cumulative Free Cash Flow over 3 years	40%	$220m	$240m	$260m
Vesting % of total award		10%	25%	40%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20%	Median	62.5 Percentile	Upper Quartile
Vesting % of total award		5%	12.5%	20%
Total	100%	25%	62.5%	100%

For this purpose Earnings Per Share (EPS) growth is defined as the cumulative Compound Annual Growth Rate in the performance period. The Board will consider the growth in normalised EPS, adjusted to exclude the impact of exceptional costs such as property gains or losses and the impact of variation of the IAS19 (pensions finance) charge.

Free Cash Flow targets are based on cumulative Free Cash Flow generated for each year of the performance period after maintaining the Company's asset base i.e. operating cash flow minus capital expenditure, adjusted to reflect any disposals, acquisitions or property gains or losses. Targets are established on a basis that is before any UK pension scheme deficit repair contributions.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016 CONTINUED

Total Shareholder Return is the total returns to shareholders which includes share price growth and ordinary dividend payments. The performance measure is assessed against a comparator group consisting of the FTSE250, excluding investment trusts.

Prior to 1 January 2016 the targets and measures that refer to Attributable Profit Growth and Cumulative Free Cash Flow are based on the performance of Coats Limited, a subsidiary of Coats Group plc. Awards from 2016 onwards are based on the performance of Coats Group plc. The Committee retains the discretion to consider whatever adjustments it considers are fair and reasonable when considering performance against the targets shown. The Committee may adjust the level of vesting if it considers that the performance measures do not reflect the overall performance of the Company during the performance period or if there has been a material event such as an acquisition or disposal during the course of the performance period.

Non-Executive Directors
All fees paid to Non-Executive Directors during 2016 were paid in accordance with the Remuneration Policy approved by shareholders on 22 May 2014. In July 2016 the fee levels for the Chairman were reviewed by the Remuneration Committee and for the Non-Executive Directors by a sub-committee consisting of the Chairman and the Executive Directors. No changes were proposed to any of the fees during 2016 and the base fees have remained at the same level since 1 October 2013.

Single total figure for Non-Executive Directors' remuneration for 2016 (audited information)

	Base fee £000		Supplementary fee £000		Benefits[1] £000		Other fee[2] £000		Total £000		Comments
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	
Mike Clasper	**225.0**	225.0	**–**	–	**4.3**	2.1	**–**	3.3	**229.3**	230.4	
Mike Allen	**60.0**	60.0	**20.0**	20.0	**39.6**	–	**–**	3.3	**119.6**	83.3	
Ruth Anderson	**60.0**	60.0	**10.0**	10.0	**3.3**	–	**–**	3.3	**73.3**	73.3	
Nicholas Bull	**60.0**	43.5	**10.0**	7.2	**3.6**	–	**–**	–	**73.6**	50.7	Appointed 10 April 2015
David Gosnell	**60.0**	50.0	**10.0**	8.3	**2.3**	–	**–**	–	**72.3**	58.3	Appointed 2 March 2015
Fran Philip	**15.0**	–	**–**	–	**–**	–	**5.0**	–	**20.0**	0.0	Appointed 1 October 2016
Alan Rosling	**60.0**	50.0	**–**	–	**1.8**	–	**–**	–	**61.8**	50.0	Appointed 2 March 2015
Total	**540.0**	488.5	**50.0**	45.5	**54.9**	2.1	**5.0**	9.9	**649.9**	546.0	

1 The figure under benefits for Non Executive Directors relates to business expense re-imbursements which are deemed to be taxable in the UK and include the tax paid by the Company directly to HMRC. Mike Allen's expenses include the grossed up cost of travel from his residence in New Zealand to attend Board Meetings which were regarded as taxable in the UK according to HMRC rules from September 2015.

2 Fran Philip was appointed to the Board on 1 October 2016. The figure under Other fee reflects the payment that was paid to her as consideration for the time incurred immediately prior to her appointment when she undertook a series of induction meetings and site visits. The 2015 Other fee for Mike Clasper, Mike Allen and Ruth Anderson represents the additional fees paid by other Group companies during 2015.

The base fee paid by Coats Group plc is £60,000 per annum for Non Executive Directors and £225,000 for the Chairman. A supplementary fee is paid to the Senior Independent Director and Chairs of the Audit Committee and Remuneration Committee (£10,000 per annum). Mike Allen receives a supplementary fee of £20,000 per annum as Chair of the Pensions Committee. Alan Rosling's services are provided through Griffin Growth Partners.

Payments to past Directors
There have been no payments made to past Directors during the financial year.

Payments for loss of office
There have been no payments made to past Directors for loss of office during the year and no Director who resigned from the Board during 2016 received any payment for loss of office.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

Arrangements for departing Chief Executive Officer

The Board announced on 31 October 2016 that Paul Forman was to the leave the Company on 31 December 2016. Paul Forman's contributions to the successful development of the Group during his employment with the Group have been significant. He was appointed Chief Executive Officer (CEO) of Coats Limited in November 2009 and subsequently became CEO of Coats Group plc in March 2015. The Chairman commenced discussions with Paul Forman early in 2016 to discuss the timing and process of achieving a successful transition of leadership and to support the next phase of development for Coats. Paul engaged openly and constructively in discussions with the Chairman and the Board about the work that would need to be done once the Board decided to confirm his departure from the Company.

During 2016 the Nominations Committee actively considered and planned for the process of finding a successor for Paul which included supporting the development and assessment of internal candidates. Paul Forman fully participated with and contributed to the succession planning process in a highly positive and professional manner which undoubtedly enabled the Company to ensure a smooth, orderly and successful transition of leadership. In particular, Paul has fully supported Rajiv Sharma from his appointment to the Board of Coats Limited in December 2014 and subsequently his appointment to the Board of Coats Group plc in March 2015 following the renaming of the Company from Guinness Peat Group plc to Coats Group plc. The process undertaken ensured that the Nominations Committee was able to consider alternative options that included both internal and external candidates for the role of CEO.

The Remuneration Committee considered during 2016 the basis on which potential severance terms may have been concluded with Paul which would have included a requirement that any contractual payment in lieu of notice would require mitigation. The terms of Paul's departure are that he was regarded as a 'Good Leaver' for the purposes of all existing incentive awards in accordance with the Remuneration Policy approved by shareholders at the 2014 AGM but that he would not receive any payment in lieu of notice because Paul confirmed that he expected to be in a position to fully mitigate any losses by accepting an alternative offer of employment.

Paul Forman will be eligible for a bonus relating to the financial year ending 31 December 2016, which will be paid fully in cash in March 2017, the bonus is based on the achievement of the pre-determined 2016 annual bonus performance measures and targets which are disclosed in this report. He will be eligible to exercise his 2014 Long Term Incentive awards (performance period 1 January 2014 to 31 December 2016) to the extent that the performance targets have been met and Long Term Incentive awards granted in 2015 and 2016 will be reduced pro-rata to reflect his period of employment and will remain eligible for vesting, subject to the original performance conditions and original normal vesting dates in April 2018 and February 2019 respectively. Awards granted under the Deferred Annual Bonus Plan in 2015 and 2016 will, in accordance with the original terms of the award, remain eligible for vesting at the third anniversary of the date of grant, subject to the non-application of any claw-back or malus provisions. Paul Forman was paid his contractual salary and benefits until 31 December 2016 but will not receive any additional severance pay.

DIRECTORS’ REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

Statement of Directors’ shareholding and share interests

The interests of the Directors who held office during the year, and their connected persons (if any), in the shares, options and listed securities of Coats Group plc and its subsidiaries as at 31 December 2016, are set out below.

	Shareholding requirement in 2016			Shares beneficially owned		Deferred bonus shares subject to vesting period		LTIP share options (subject to performance conditions)		Share options (no performance conditions)	
	Shares	Equivalent % of Salary [3]	Condition Met?	01-Jan-16[1]	31-Dec-16[2]	01-Jan-16[1]	31-Dec-16[2]	01-Jan-16[1]	31-Dec-16[2]	01-Jan-16[1]	31-Dec-16[2]
Executive Director											
Simon Boddie	1,300,000	100%	No	–	100,000	–	–	–	1,724,137	–	–
Paul Forman	1,800,000	100%	No	535,933	1,035,933	438,241	908,395	5,473,439	4,968,983	–	–
Richard Howes	1,200,000	100%	No	490,000	490,000	279,651	608,645	3,600,946	–	–	–
Rajiv Sharma	1,800,000	100%	No	–	200,000	482,925	932,311	4,406,948	7,315,019	–	–
Chairman and Non-Executive Directors											
Mike Clasper				1,490,000	1,490,000	–	–	–	–	–	–
Mike Allen				200,000	200,000	–	–	–	–	–	–
Ruth Anderson				100,000	200,000	–	–	–	–	–	–
Nicholas Bull				250,000	400,000	–	–	–	–	–	–
David Gosnell				786,475	786,475	–	–	–	–	–	–
Fran Philip				–	–	–	–	–	–	–	–
Alan Rosling				–	–	–	–	–	–	–	–

1 Or date of appointment, if later.

2 Or date of resignation, if earlier.

3 For 2017 onwards this is increased to 200%. The target number of shares is based on the average share price for 2016 which was 30.6p.

The Executive Directors’ shareholding requirement must be met within five years of their appointment to the Board which is by 2 March 2020 for Rajiv Sharma and 4 July 2021 for Simon Boddie. For the purposes of achieving this target the total number of shares beneficially owned by the Director or a connected person is reflected as well as the estimated post-tax number of vested but unexercised share options or deferred bonuses that are not subject to a performance condition. All Long Term Incentive awards granted to Executive Directors from 29 July 2016 onwards include a requirement to retain any vested shares (save for any shares that may be sold to satisfy income tax liabilities) until a minimum of the fifth anniversary of the date of grant.

On 27 February 2017, Executive Directors were awarded the following nil cost options as part of their deferred bonus for 2016; Simon Boddie 71,506 shares, Rajiv Sharma 211,214 shares. The options are exercisable after a period of three years. In addition, the following nil cost options were awarded in respect of awards under the LTIP, Simon Boddie 1,095,890 shares, Rajiv Sharma 1,536,986 shares. On 28 February 2017 Rajiv Sharma purchased 200,000 shares; on 2 March 2017 Simon Boddie purchased 100,000 shares. On 6 March 2017 Paul Forman exercised options over 1,008,486 shares for nil cost following the vesting of LTIP 2014. No other options have been exercised by any Director during the year or between the year end and the signing of this report.

No other Directors have entered into any transactions since the year end. No options were exercised by Directors during the year. The figures in the table above reflect the appropriate lapse in Long Term Incentive awards following the resignations of Paul Forman and Richard Howes from the Board. LTIP share options granted to Richard Howes lapsed in full following his resignation from the Board. LTIP share options granted to Paul Forman were reduced pro-rata to reflect his ‘Good Leaver’ status following his resignation from the Board on 31 December 2016.

The middle market price of Coats Group plc shares at 30 December 2016 was 55.1 pence and the range during the year was 21.25 pence to 56.0 pence.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
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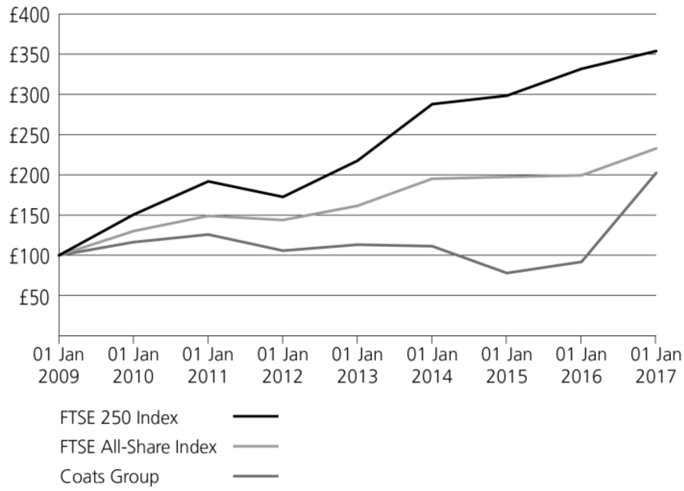
Review of performance

The graph shows the difference between investing £100 in the Company and the constituents of the FTSE All Share Index and FTSE250 from 1 January 2009 to 31 December 2016. It is assumed dividends are reinvested over that period. The Board feels the FTSE All Share Index and the FTSE250 each provide an appropriate comparator given the Company's market capitalisation and its presence on the London Stock Exchange.



Chief Executive total remuneration for the last 8 years[1]

Executive Director	2009	2010	2011	2012	2013	2014	2015	2016
CEO single figure of remuneration (£K)	–	–	–	–	–	–	1,017.0	**1,760.3**
Annual Bonus as a % of maximum opportunity	–	–	–	–	–	–	87.1%	**77.0%**
LTIP award as a % of maximum opportunity	–	–	–	–	–	–	–	**43.6%**

Chief Executive remuneration – percentage change from 2015 to 2016

Executive Director	Salary	Benefits	Bonus
CEO Remuneration (Single Figure data)	22.9%	82.0%	9.2%
Average of all employees[2]	4.8%	0%	(7.1)%

1 The Company did not have an Executive Director who performed the role of CEO until 2 March 2015, when the Company completed its transition from Guinness Peat Group plc to Coats Group plc. The increase in CEO remuneration from 2015 to 2016 is therefore largely influenced by the 2015 single figure data being part year data. The annual salary for the CEO increased by 2.8% and the annual bonus decreased by 10.1%.

2 The average of all employees reflects the total number of employees based in the UK. The UK has been chosen as the most appropriate comparator group because the CEO is based in the UK and the majority of Coats employees who are employed outside the UK are working in locations with very different inflationary and market pressures. The UK employee population includes employees across all levels of the organisation.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

Relative importance of spend on pay
The table below shows the total pay for all of the Company's employees compared to other key financial indicators.

	Year to 31 December 2016	Year to 31 December 2015	% change
Employee costs ($m)	**342.5**	339.9	1%
Distributions to shareholders[1] ($m)	**Nil**	Nil	–
Average number of employees	**19,046**	19,289	(1)%
Revenues from continuing operations ($m) – like-for-like	**1,457**	1,432	2%
Operating profit pre-exceptional ($m) – like-for-like	**158**	136	16%

1 By way of dividends and share buybacks.

Additional information on number of employees, total revenues and profit has been provided for context. The figures for employee costs and average number of employees in 2016 and 2015 have been stated on the basis of continuing operations only. Information for 2016 includes acquisitions made during the year. The figures have been amended from prior years to reflect the revenue and profit on the basis of like-for-like comparison and to reflect Coats Group reporting currency of US dollars.

Statement of implementation of Remuneration Policy for 2017
Base salaries for Executive Directors and fees for the Chairman and Non-Executive Directors will be reviewed on 1 July 2017. With effect from 1 January 2017 Non-Executive Directors will receive an additional fee of £1,500 for every meeting where more than 5 hours of one way air travel is required. A cap of five additional fees per annum will apply.

Rajiv Sharma was appointed as Chief Executive of Coats Group plc with effect from 1 January 2017. Rajiv is a Singaporean national and is currently based in Dubai; having been previously recruited as the Managing Director, Industrial Division based in Singapore. Rajiv's base salary is £561,000 per annum with effect from his appointment and, in addition, he will continue to receive a pension allowance of 20% of salary and a car allowance of £20,000 per annum. To support his relocation to the UK he will be paid a net allowance of £10,000 per month for the first 12 months reducing to £5,000 per month for a subsequent period of 12 months and thereafter reducing to nil. The Company will also pay relocation expenses in addition which will include airfares and shipping costs, tax compliance assistance, tax equalisation to an effective Singaporean tax rate for the first 12 months (reducing by half in the second twelve months and thereafter ceasing) and a one-off relocation payment of £12,000 net to cover expenses and costs not directly specified or reimbursed by the Company in connection with the relocation or acquisition of a permanent UK residence. Full details will be disclosed in the 2017 Annual Report on Remuneration. Simon Boddie will continue to receive a base salary of £400,000 per annum, a pension allowance of 20%, a car allowance, medical insurance and life insurance.

The 2017 annual bonus incentive opportunities and Long Term Incentive award grants will be unchanged from 2016 and will be implemented in accordance with the Remuneration Policy. The Committee decided to amend the annual bonus performance measure from Net Working Capital to Free Cash Flow in 2017 to further incentivise the conversion of profit to cash generation. The Committee also decided to increase the compulsory three-year deferral into shares of the 2017 bonus outcome from 25% to 33% of annual bonus and to increase the Minimum Shareholding Requirement from 100% to 200% of salary.

Annual bonus		**Long Term Incentive**	
Measure	Weighting	**Measure**	Weighting
Attributable Profit	25%	Earnings Per Share CAGR	40%
Earnings Before Interest and Taxation	25%		
Free Cash Flow	30%	Free Cash Flow	40%
Individual objectives	20%	Total Shareholder Return	20%

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

The Long Term Incentive awards granted in 2017 are made with following targets.

Measure	Threshold	Maximum
EPS CAGR over three years	5%	15%
Cumulative Free Cash Flow ($m) over three years	$229m	$289m
Total Shareholder Return vs FTSE250 excluding investment trusts	Median	Upper Quartile
Vesting % of each measure for Threshold and Maximum performance	25%	100%

Straight line vesting occurs between Threshold and Maximum.

The cumulative Free Cash Flow target is subject to adjustment and is calculated before dividends and before any deficit repair contributions to UK pension schemes. EPS growth is based on EPS growth adjusted to exclude the impact of any variation in the pension finance charge.

Consideration by the Directors of matters relating to Directors' remuneration
The members of the Committee were: D Gosnell (Chairman), M Allen, F Philip (joined 1 October 2016) and A Rosling.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report. The Committee also received assistance from S Morgan (who also acted as Secretary to the Committee), A Speak (HR Director) and B Fahey (Reward Director). No Directors are involved in deciding their own remuneration.

The Company received advice from Herbert Smith Freehills LLP in relation to legal matters relating to the Group's incentive plans. Kepler, a brand of Mercer, provided independent advice to the Company principally in relation to the design and performance targets set for the Group's incentive plans, benchmarking of Executive Directors pay, review of the Directors' Remuneration Report and amendments to the 2017 Remuneration Policy. Kepler were paid fees of £61,871 for time spent and materials used in providing advice to the Company during the period to 31 December 2016. Kepler provide no other advice to the Company and the Committee is satisfied that the advice provided was fair and objective.

Statement of voting at general meeting
At the AGM of the Company on 18 May 2016 the results of the vote regarding Resolution 2 (to approve the Annual Report on Remuneration) were:

Votes for		Votes against			
Number	%	Number	%	Votes Total	Votes Witheld
979,392,077	99.96	409,879	0.04	979,801,956	1,110,979

At the AGM of the Company on 22 May 2014 the results of the vote regarding Resolution 3 (to approve the Remuneration Policy were):

Votes for		Votes against			
Number	%	Number	%	Votes Total	Votes Witheld
749,188,151	94.78	41,268,185	5.22	790,456,336	2,122,443

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016 CONTINUED

Remuneration Policy Report
The Remuneration Policy was last approved by shareholders at the AGM on 22 May 2014. This updated policy will be subject to a binding shareholder Resolution at the AGM on 17 May 2017. If approved, the policy will apply for a period of three years from the date of approval.

Directors' Remuneration Policy
The Remuneration Committee has responsibility for determining remuneration for the Company's Directors including the Chairman but excluding the Non-Executive Directors. The remuneration for Non-Executive Directors (excluding the Chairman) is determined by a Committee chaired by the Group Chairman and the Executive Directors. The Committees take into account the need to recruit and retain Directors who have the suitable skills and experience to perform in the interests of the Company and its shareholders, while paying no more than is necessary.

The Remuneration Committee will need to ensure that any incentive compensation for Executive Directors is suitably motivational and will encourage any such Executive Directors to meet stretching performance targets within an acceptable degree of risk.

The Committee's policy is that remuneration and benefit levels should be sufficiently competitive, having regard to remuneration practice in the industry and the countries in which the Group operates, to attract, incentivise, reward and retain Directors and senior executives.

The Remuneration Policy set out below applies to all Directors who are appointed to the Board during the life of this policy.

Non-Executive Directors
The Chairman and Non-Executive Directors receive an annual fee (paid in monthly instalments). Non-Executive Directors (excluding the Chairman) may also receive an additional fee in respect of travel if over five hours of one-way flight time is required to attend a Board meeting, up to an annual cap. The fee for the Chairman is set by the Committee and the fees for the Non-Executive Directors are approved by the Board, on the recommendation of the Chairman. In determining the appropriate level of fees the Committee and the Chairman consider advice from external sources and data on the fee levels in other similar companies. No individual is present when his or her own level of remuneration is discussed.

For Non-Executive Directors, the remuneration arrangements will be in line with those set out in the relevant Section below.

Non-Executive Directors' Remuneration Policy table

Element	Purpose and link to strategy	Operation
Fees		
	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering market competitive fee levels.	The Chairman is paid an all-inclusive fee for all Board responsibilities. The other Non-Executive Directors receive a basic Board fee, with supplementary fees payable for additional Board responsibilities and travel (if appropriate). The fee levels are reviewed on a periodic basis and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Additional payments may be made above the basic Board fee if duties significantly exceed expectations.
Supplementary fees		Supplementary fees may be payable to the Senior Independent Director, Chair of the Audit and Risk Committee, and Chair of the Remuneration Committee.
Travel fees	The Board benefits from the diverse global business experience of its Non-Executive Directors, some of whom do not reside in the UK. However, the increasingly global nature of our business means that our Non-Executive Directors are required to travel, with recent meetings held in Brazil, China, Sri Lanka, the USA and Vietnam. The Board wishes to recognise the additional time commitment required for Non-Executive Directors (excluding Chairman) in travelling to Board meetings.	An additional fee may be payable to any Non-Executive Director (excluding the Chairman) who is required to travel for more than a specified length of time to attend a Board meeting. The maximum total fees for travel will be subject to an annual cap. For 2017, a travel fee will be payable for any journey longer than 5 hours of one-way flight time and the maximum fee will be capped at the equivalent of 5 trips. The length of journey and maximum cap will be reviewed annually to ensure their continued relevance and appropriateness.

No benefits or other remuneration will be provided to Non-Executive Directors. However in some cases reimbursement of business travel, entertaining and accommodation expenses claimed in accordance with the UK expenses policy may be deemed taxable benefits under UK tax rules. The Company pays the resulting tax liability.

In determining the level of fees for a new Non-Executive Director, the Committee will take into account all factors it determines to be relevant, including the skills and experience of the individual and the need to attract Non-Executive Directors of the appropriate calibre. The Committee will also take into account the level of fees offered by equivalent companies.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016 CONTINUED

Terms of appointment
Fees
Under their respective Non-Executive Director appointment letters, all of the Non-Executive Directors are entitled to receive an annual fee.

Term and termination provisions
None of the appointment letters contains a set term of office.

None of the appointment letters contains a notice period. Removal of the Non-Executive Directors would be governed by the Articles of Association of the Company.

All Non-Executive Director letters of appointment are available for inspection at 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD during normal hours of business, and will also be available at the Company's AGM.

Policy on payment for loss of office
There are no provisions in the Non-Executive Directors' letters of appointment that would give rise to any compensation payments for loss of office.

Executive Directors
The policy that applies to the appointment of any Executive Director is shown below. The remuneration package may include the components of remuneration described below in the Executive Directors' Remuneration Policy table subject to the relevant limits as set out in the following tables.

Executive Directors' Remuneration Policy table
Fixed remuneration

Purpose and link to strategy	Operation and opportunity
Salary	
To attract and retain the key talent that the Company needs to achieve its objectives.	Salaries for new Executive Directors will be set by the Board taking into account such factors as it determines to be necessary, as discussed above. Following recruitment, salaries will be reviewed annually with effect from 1 July. Salary reviews take account of factors including the market competitive level of pay in other companies, average salary increases applied elsewhere across the Group, the performance of the Company, the relative skills, performance and talent of the individual and any increase in the scope and/or responsibility of the individual's role. The Committee's approach will consider the median level of salary of similar positions in the FTSE250 (excluding financial services), as well as companies in similar sectors and of a similar international scope and size to Coats, for UK based roles to reflect the global scope and dimensions of the Group's operations and the sector in which it operates. External benchmark data is considered only as a reference point and the median figure will not be regarded as a target level of remuneration.
Pension	
To provide a market competitive level of retirement provision.	In the case of an external appointment, the Executive Director will either be entitled to participate in a defined contribution scheme, on a non-contributory basis, with an employer contribution of up to 20% of salary, or will be provided with a cash alternative in lieu of any pension benefits of up to 20% of salary. In the case of promotion of an executive of the Group to the role of Executive Director, the individual will be entitled to continue to participate in any pension arrangements (including any cash alternative arrangements) in which they participate at the time of promotion or to participate in a new arrangement on the same terms as may be offered to an external appointment (as described above).
Benefits	
To provide a market competitive level of benefits.	Benefit provision to Executive Directors will be determined by the Committee taking into account such factors as it determines to be necessary, with the aim of creating a competitive overall package. Benefits may include the provision of private medical insurance, ill-health protection and/or life insurance and a cash-for-car-allowance. In addition, the Company may provide assistance in connection with the relocation of an Executive Director and, in the event of an international transfer, may provide tax equalisation arrangements. Executive Directors may also participate in any all-employee incentive plan operated by the Company from time to time, up to the same limit for participation as applies for other employees.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016 CONTINUED

Variable remuneration

Purpose and link to strategy	Operation and opportunity	Performance
Annual bonus, Cash bonus and deferral into shares under the rules of the Deferred Bonus Plan		
Annual bonus incentivises key individuals to achieve the objectives of the annual business plan. The deferred element ensures that the final value of the annual incentive is linked to the longer term value of the Group.	Annual bonuses will be determined by reference to performance, measured over one financial year. The maximum annual bonus that may be awarded to any executive director will be 150% of salary. For 2017, maximum annual bonuses for all executive directors will remain at 100% of salary. Any bonuses awarded will be subject to mandatory deferral of 33%. Deferred bonuses will be transferred into shares, to be held for a three year retention period, under the terms of the Deferred Bonus Plan. Deferral may operate so that shares will be held beneficially by the Executive Director during this period, in which case dividends will be payable on shares during such period. The deferral may alternatively be achieved by the grant of a share award or nil cost option in lieu of the deferred portion of the bonus, in which case an additional payment in cash or shares may be made to reflect dividends that may have been earned during the period from grant to vesting. The annual bonus including cash paid or deferred element of the bonus may be subject to malus or clawback in cases of personal misconduct or a restatement of results that mean the annual bonus awarded was greater than it should have been.	The performance measures, weightings and targets for the annual bonus will be set by the Committee on an annual basis. Performance measures will normally include tests of both business and individual performance. The weighting for each objective will be determined annually by the Committee to reflect the strategic importance of each objective for the year ahead. The Target or Budget level of performance will result in a payment of between 40% to 60% of the maximum award. The Committee will determine the Target/Budget level of remuneration on a basis that it feels is stretching and challenging. Below Target, payment will increase between nil (below Threshold performance) and Target payout, on a straight-line basis. Above Target, payment will increase on a straight-line basis up to 100% for Maximum performance. The Committee will have the discretion to reduce vesting levels if it determines the result of the performance targets does not accurately reflect the financial health of the Company. All annual bonus payments and awards are made at the discretion of the Committee and the terms of the awards may be amended by the Committee at any time provided that they remain within the terms of this policy.
Long Term Incentive Plan		
To incentivise key individuals to achieve key long term objectives, in line with the Group's long-term strategy. To create alignment between executives and shareholders. To retain key individuals. Performance will be assessed over a period of not less than three years. For 2017, performance will be based 40% on earnings per share, 40% on free cash flow and 20% on relative TSR performance vs. FTSE 250 excluding investment trusts.	Awards will be made annually, conditional on the achievement of three-year performance conditions. Any vested shares will be subject to an additional two-year holding period. Award levels for a Chief Executive Officer or a Chief Financial Officer will be up to 150% of salary, with lower award levels for any other Executive Director. Awards may be made to other senior executives within the Group. Larger awards may be made in exceptional circumstances, but in no case to exceed 250% of salary. Awards will normally be made in the form of nil cost options, exercisable between the third and the tenth anniversary of grant (subject to the additional two-year holding period), although awards may be made in other forms. An additional payment in cash or shares may be made to reflect dividends that may have been earned on the proportion of the award that vests during the period from grant to the end of the holding period. Awards will be subject to malus and clawback provisions. The malus provisions give the Committee discretion to reduce the level of an award prior to vesting in the event of personal misconduct or if events have happened that caused the Committee to determine the grant level was not appropriate. The Committee will have discretion to claw back vested awards in the event that personal misconduct prior to vesting is discovered or if within three years of vesting there is a restatement of results that means awards vested at too high a level. The Long Term Incentive Plan was approved by shareholders at the 2014 AGM.	In future years the performance measures used, the weighting on each measure, the definition of the measures and the performance targets, will be determined by the Committee considering the balance of strategic priorities for the Company for the upcoming three-year performance period. In addition, the Committee may consider setting an underpin condition which must be satisfied prior to vesting of an award. No awards will vest for performance below Threshold, 25% of each element will vest for achieving Threshold performance, increasing on a straight-line basis to 100% for Maximum performance. The Committee will be able to reduce vesting levels if it determines the result of the performance targets does not accurately reflect the financial health of the Company. Following grant of an award, the Committee will have power to amend performance measures and targets if events happen that mean they are no longer a fair test of performance, but not so as to make the assessment of performance materially less onerous.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

Amendments to the approved Remuneration Policy
Provided sufficient flexibility to allow the Committee to determine the appropriate performance measures and weightings for the annual bonus and long-term incentive each year. Any significant change in measures will be discussed with shareholders in advance.

Increased the maximum annual bonus opportunity from 100% of salary to 150% of salary. Annual bonus opportunities will remain at 100% of salary for 2017.

Increased bonus deferral from 25% to 33% of any bonus earned, to be held as shares for three years.

Formalised the intention to include a two-year holding period, in addition to the current three-year performance period in the long-term incentive plan.

Formalised the intention to provide a specific additional NED fee to recognise the additional time commitment required when travelling to a Board meeting (over five hours one way flight time, capped at the equivalent of five additional fees per annum).

Increased share ownership guidelines from 100% of salary to 200% of salary.

Made necessary adjustments to remove reference to arrangements for former directors, which are no longer relevant.

Performance measure selection and target-setting
The measures used under the annual bonus are selected annually to reflect the most important strategic measures for the upcoming year and include both business and individual performance objectives. Performance targets are set taking into account the strategic objectives for the business for the year ahead and the execution of the Group's long term growth strategy. Targets are also established on the basis that they should be stretching within an acceptable degree of risk.

The Committee believes that for 2017 total shareholder return, earnings per share and free cash flow remain the most appropriate measures of long-term performance for the business. TSR performance is measured against the FTSE 250 (excluding investment trusts) and provides strong alignment between Executive Directors and shareholders, EPS growth maintains management focus on strong financial performance and free cash flow underpins the importance of maintaining cash reserves for Coats' long-term business performance. Performance targets are set taking into account the sector in which the Group operates and the acceptable risk profile of the Group. The Committee considers a range of reference points, including broker forecasts and the Company's strategic plan to ensure targets are challenging.

Differences between Executive Director and general employee remuneration
The structure of remuneration for Coats' senior management team is consistent with that for the Executive Directors. Senior executives participate in annual bonus and long-term incentive arrangements based on the same performance measures as Executive Directors. The remuneration arrangements for other employees reflect the local market practice appropriate for each role and is therefore varied compared to that for senior executives and Executive Directors.

Legacy matters in respect of future Executive Directors
In the event that an executive of the Group is promoted to the Board, the Company retains discretion to honour any existing remuneration commitments. In particular, any long term awards, both cash and share awards, will continue to be capable of vesting on their existing terms. This would include awards previously granted under legacy Group incentive plans. This would also include any awards granted under the Long Term Incentive Plan or Deferred Bonus Plan prior to the individual being appointed as a director (although it would be intended that any such awards would in any event comply with the Policy as set out above).

Shareholding target
Executive Directors will be required to attain a shareholding, over a five-year period, equivalent to 200% of salary.

Recruitment Policy
In order to appoint an Executive Director, including a promotion to the Board of an executive from within the Group, the Committee will offer the recruit a remuneration package that it believes is appropriate, taking into account the skills and experience of the individual and the need to attract, retain and motivate individuals of the appropriate calibre. In determining the remuneration package that may be offered to a new Executive Director, the Committee may also take into account external and internal comparisons and relevant market factors, as well as any other factors which the Board determines to be relevant.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

External appointment
In the cases of hiring or appointing a new Executive Director from outside the Company, the Committee may make use of all the existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value
Base salary	Salaries for new appointees will be determined by reference to the relative skills and experience of the individual, the market competitive level of pay in other companies and any other relevant external or internal comparisons.	
Benefits	New appointees will be eligible to receive benefits which may include (but are not limited to) the provision of private medical insurance, ill-health protection and/or life insurance and a cash-for-car-allowance, and, where appropriate, relocation, international transfer or tax equalisation arrangements.	
Pension	New appointees will receive pension contributions or cash alternative in lieu of any pension benefit.	20% of salary
Annual bonus	The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal element will be tailored to each Executive Director.	150% of salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as other Executive Director's, as described in the policy table.	250% of salary

For external appointment, the Committee may determine that there may be exceptional circumstances where it would be appropriate, in order to secure the right candidate, to compensate for lost awards incurred by an individual as a result of leaving their former employer. In the case of any long term incentive awards, save where such awards are close to vesting, any such award on appointment would normally be granted as a share based award, subject to such vesting and/or performance conditions as the Committee determines to be appropriate, either under a one-off arrangement or under the terms of the Long Term Incentive Plan (as described below). In determining the terms of any such awards, the Committee would take account of the vesting schedule and conditions attached to the forfeited awards, but also other factors that it determines to be relevant, including the need to suitably incentivise and retain the individual during the initial years of their applicable appointment.

Internal promotion
In cases of appointing a new Executive Director by way of internal promotion, the Committee and Board will be consistent with the policy for external appointees detailed above.

In the event that an executive of the Group is promoted to the Board, the Company retains power to honour any existing remuneration commitments. In particular, any long term awards, both cash and share awards, will continue to be capable of vesting on their existing terms. This would include awards previously granted under legacy Group incentive plans. This would also include any awards granted under the Long Term Incentive Plan or Deferred Bonus Plan prior to the individual being appointed as a director (although it would be intended that any such awards would in any event comply with the Policy as set out above).

Service contracts for Executive Directors
The Committee's policy is for service contracts for Executive Directors to reflect the Committee's understanding of best corporate practice for listed companies. However, in the event that an executive of the Group is promoted to the Board, the Committee may include terms in any new service contract which are consistent with that individual's existing service contract and legacy arrangements.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

Subject to this, the key elements of a service contract offered to a UK based Executive Director appointment are:

Notice period	The notice period is no more than 12 months (in the case of notice being given by the Company or the Executive Director). An Executive Director may be placed on garden leave during some or all of the notice period.
Payment in lieu of notice ('PILON')	Save in circumstances justifying summary termination, employment may be terminated without notice by paying a PILON comprising basic salary and contractual benefits. Subject to any legacy terms, the Company will have discretion to pay on a phased basis, which will normally be subject to mitigation.
Pension	The service contract may include entitlement to pension benefits, subject to the provisions and any limits set out in this Policy and the pension scheme rules or an annual allowance. The entitlement to pension benefits may continue during any notice period.
Benefits	The service contract may include entitlement to other benefits, subject to the provisions and limits set out in this Policy. The entitlement to benefits may continue during any notice period.
Incentive plans	The Executive Director will be eligible to be considered (at the Committee's discretion) to participate in the annual bonus and long term incentive arrangements operated from time to time, subject to the provisions and limits set out in this Policy. The terms of such arrangements would apply in the event of a cessation of office or employment, as set out in the table below.

Service contracts offered to non-UK based, external appointments will generally be in line with the provisions set out above, subject to any local law requirements.

Executive Directors will be able to accept non-executive appointments outside the Company (as long as this does not lead to a conflict of interest) with the consent of the Board, as such appointments can enhance their experience and add value to the Company. Any fees received (excluding positions where the Executive Director is appointed as the Company's representative) may be retained by the Executive Director.

Policy on payment for loss of office of Executive Directors
In the case of an executive of the Group who is promoted to the Board, the terms on cessation of office or employment would be governed by the terms of the individual's existing employment agreement. In addition, the terms of any incentive awards made to the individual prior to being appointed as an Executive Director, and the terms of any pre-existing participation in a pension scheme, would govern the treatment of such arrangements.

Notice periods, salary and contractual rights
The notice periods and contractual rights on termination that would be included in a service contract offered to an external recruit are set out above. In addition, the Executive Director would be entitled to accrued but untaken holiday.

In respect of any awards made to an Executive Director under any all-employee share plan, the same leaver conditions will apply as apply in respect of employees generally.

Discretions
In considering the exercise of its discretions under the incentive arrangements, as referred to above, or otherwise in connection with the cessation of office or employment of an Executive Director, the Committee will take into account all relevant circumstances, having regard to their duties as Directors.

In doing so, factors that the Committee may take into account shall include, but not be limited to, considering the best interests of the Company, whether the Executive Director has presided over an orderly handover, the contribution of the Executive Director to the success of the Company during their tenure, the need to ensure continuity, the need to compromise any claims that the Executive Director may have, whether the Executive Director received a PILON and whether, had the Executive Director served out their notice, a greater proportion of the outstanding award may have vested.

Other
The Company may enter into new contractual and financial arrangements with a departing Executive Director in connection with the cessation of office or employment, including (but not limited to) in respect of settlement of claims, confidentiality, restrictive covenants and/or consultancy arrangements, where the Committee determines it necessary or appropriate to do so. Appropriate disclosure of any such arrangement would be made.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016 CONTINUED

Corporate actions

On a corporate action affecting the Company, the rules of the Long Term Incentive Plan and Deferred Bonus Plan will apply. In summary, on a change of control awards will vest, subject to the performance conditions and, unless the Committee determines otherwise, time pro-rating.

Deferred shares awarded under the terms of the Deferred Bonus Plan, which represent deferrals of previously earned bonus, will vest in full. Under the Long Term Incentive Plan and Deferred Bonus Plan, the Committee may determine that a demerger or similar event shall constitute a corporate action.

On a variation of share capital or similar event, the Committee may make such adjustment to awards under the Long Term Incentive Plan and the Deferred Bonus Plan as the Committee considers appropriate.

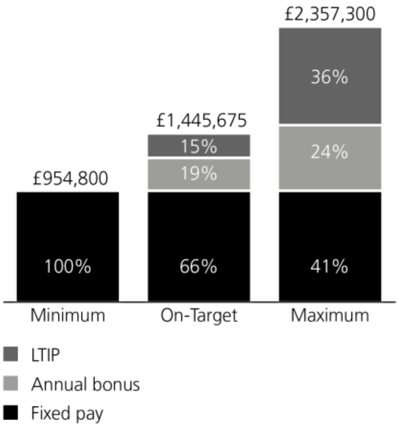
Incentive plans

	Good leavers	Other leavers
Annual bonus	The Company does not consider it appropriate to set defined 'good leaver' and 'bad leaver' conditions in respect of the annual bonus arrangements. Instead, where an Executive Director has ceased to hold office or employment with the Group, or is under notice, other than due to personal misconduct, the Committee will determine whether or not the individual will be eligible to receive any annual bonus. If the Committee determines that a departing Executive Director is eligible to receive a bonus, the amount of the bonus will be assessed by reference to the performance targets set for that financial year. The deferral requirement in respect of 33% of the amount of any bonus awarded will continue to apply if the Committee so determines. The amount of any bonus will be pro-rated for time, provided that the Committee has discretion to waive time pro-rating.	Where the reason for cessation of office or employment is personal misconduct no bonus will be payable. In other cases, unless the Committee determines that the departing Executive Director is eligible to receive a bonus, no bonus will be payable.
Long Term Incentive Plan	A departing Executive Director will be a 'good leaver' on ceasing employment due to retirement, injury, disability, ill-health, death, redundancy or the sale of a business or subsidiary out of the Group. Awards held by 'good leavers' will normally vest on the normal vesting date (i.e. the third anniversary of grant) to the extent that the performance conditions are met, and be pro-rated for time. Any awards that the Committee determines to have vested will ordinarily be subject to the additional two-year holding period, unless the Committee determines in its discretion to accelerate vesting to the date of cessation. The Committee also will have discretion to waive the time pro-rating requirement.	Unvested awards will lapse in full where the cessation of office or employment is on grounds of personal misconduct. In other cases, the Committee will have discretion to determine that unvested awards will vest (in which case the terms applicable to 'good leavers' will apply). Unless this discretion is exercised, unvested awards lapse in full.
Deferred Bonus Plan	Unvested deferred shares (which represent deferrals of earned bonus) will vest in full on the normal vesting date (i.e. the third anniversary of grant), provided that the Committee will have discretion to accelerate vesting to the date of cessation.	Where the reason for cessation of office or employment is personal misconduct unvested deferred shares will lapse in full.

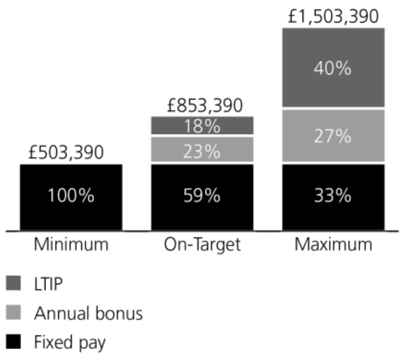
DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
CONTINUED

Performance scenario charts

Rajiv Sharma



Simon Boddie



Assumptions: Fixed pay = salary + benefits + pension
Salaries are based on Executive Directors salaries at appointment, which will next be reviewed on 1 July 2017.

Benefits are as paid for the year ended 31 December 2016.

Pension based on allocation of 20% salary.

Bonuses based on nil payment for minimum scenario, 50% of salary for on-target and 100% of salary for maximum.

LTIP based on nil vesting at minimum, 25% vesting of normal awards of 150% of salary (I.e. 37.5% of salary) for on-target performance and 150% of salary for maximum scenario.

Development of this policy

Statement of consideration of employment conditions elsewhere in the Company
When reviewing executive director pay the Committee takes into account the impact on and comparison with pay arrangements throughout the Company. The Committee does not directly consult with employees when determining remuneration policy.

Statement of consideration of shareholder views
The Committee remains committed to shareholder dialogue and takes an active interest in voting outcomes. The Committee sought the views of our major shareholders before submitting this Policy for shareholder approval at the 2017 AGM.

The Committee may, without seeking shareholder approval, make minor changes to this Policy that do not have a material advantage to Directors.

A copy of the Remuneration Policy will be made available at **www.coats.com/governance**.

The Remuneration report was approved by the Board of Directors on 9 March 2017 and signed on its behalf by:

David Gosnell
Chairman,
Remuneration Committee

9 March 2017

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016.

Corporate Governance statement

The Strategic report and Corporate governance report found on pages 1 to 78 and, together with this report of which it forms part, fulfils section 414C of the Companies Act 2006 and the Financial Conduct Authority's Disclosure Guidance and Transparency Rules requirements by including, by cross reference, details of the Group's financial risk management objectives and policies, business review, future prospects and environmental policy.

Results and dividends

The results of the Group are shown on page 86 and movements in reserves are set out in note 27 to the financial statements.

The Company recommends to shareholders payment of a final dividend of 0.84 US cents per share in respect of the year ended 31 December 2016 on 30 May 2017 to shareholders recorded on the Register on 5 May 2017 (2015: £Nil). The shares will become ex-dividend on 4 May 2017. The Company did not pay any dividend in 2015.

Environment matters

The involvement of the Group in relation to the lower 8 miles of the Lower Passaic River is reported in the Principal risks section of the Annual Report and can be found on page 23. Further details are contained in note 28 to the financial statements.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement.

In addition, note 34 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Directors believe that the Group is well placed to manage its business risks successfully.

The Board expects to be able to meet any actual and contingent liabilities from existing resources. Further information on the net cash position of the Group is set out in note 30(e).

Giving due consideration to the nature of the Group's business and taking account of the following matters: the financing facilities available to the Group; the Group's foreign currency exposures; the binding settlement agreement with the Trustees of the UK Coats Pension Plan and Brunel Holdings Pension Scheme announced on 17 February 2017 and the proposed settlement offer open to the Trustee of the Staveley Scheme; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the Directors consider that the going concern basis of accounting is appropriate for the Company and the Group and the financial statements have been prepared on that basis.

DIRECTORS' REPORT CONTINUED

Directors

The names and biographical details of the current Directors are shown on pages 32 to 34. Particulars of their emoluments and interests in shares are given in the Directors' Remuneration Report. Changes to the composition of the Board since 1 January 2016 up to the date of this report are shown in the table below:

Member	Joined the Board	Left the Board
Richard Howes		6 April 2016
Simon Boddie	4 July 2016	
Fran Philip	1 October 2016	
Paul Forman		31 December 2016

Appointment and retirement of directors

The appointment of Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code and the Companies Act 2006. The Directors may, from time to time, appoint one or more Directors.

In the interests of good governance and in accordance with the provisions of the UK Corporate Governance Code, all Directors will retire and submit themselves for re-election at the forthcoming AGM.

Share capital

Details of the Company's issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 26. The Company has one class of Ordinary Shares, which does not carry the right to receive a fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions or agreements known to the Company that may result in restrictions on share transfers or voting rights in the Company. There are no specific restrictions on the size of a holding, on the transfer of shares, or on voting rights, all of which are governed by the provisions of the Articles of Association and prevailing legislation.

Shareholder authority for the Company to purchase up to 140,761,228 (10%) of its own shares was granted at the 2016 AGM. No shares were purchased pursuant to this authority during the year.

Shareholder authority for the Company to allot shares up to an aggregate nominal amount of £23,460,205 was granted at the 2016 AGM. No shares were allotted pursuant to this authority during the year. The issued share capital of the Company at 31 December 2016 was £70,380,614 divided into 1,407,612,282 ordinary shares of 5 pence each. Since 31 December 2016, 2,143,170 new shares have been issued as a result of the exercise of share options by the Company's share option scheme participants and the total issued share capital at 9 March 2017 is 1,409,755,452 ordinary shares of 5p each. The Company's Ordinary Shares are listed on the London Stock Exchange. The register of shareholders is held in the UK.

At the 2016 AGM, the shareholders approved the Company's delisting from both the Australian Stock Exchange and the New Zealand Stock Exchange and this was completed during 2016.

Substantial interests

As at 31 December 2016 the Company had been notified, in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules, of the following voting rights as a shareholder of the Company (see the following table).

DIRECTORS' REPORT CONTINUED

Substantial interests

Name of shareholder	Shares	%
Soros Fund Management LLC	174,416,970	13.18
Prudential plc group of companies (M&G)	141,251,167	10.03
FIL Limited	140,761,228	9.99
Invesco	138,493,196	9.83
J O Hambro Capital Management Ltd	72,517,452	5.15
Kempen Capital Management N.V	71,172,011	5.06
Odey Asset Management LLP	69,490,000	4.94
MSD Capital	56,006,443	3.98
Schroders plc	51,864,254	3.69

As required by Chapter 5 of the Disclosure Rules and Transparency Rules, the only change since the year end has been the inclusion in the schedule of substantial interests of Kempen Capital Management N.V.

Property, plant and equipment
Details of property, plant and equipment are set out in note 14 to the financial statements.

Research and Development (R&D) and future development
The Group has a number of ongoing R&D projects focused on developing value-adding products aimed at the industrial market segments, as well as continuing to develop its proprietary colour management systems. Further information on future development initiatives can be found in note 5.

Employee issues
A description of the Company's employee policies applied during the year and details of its Employee Engagement survey can be found on page 17 of this Annual Report.

Employees with disabilities
Applications for employment by people with disabilities are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff developing disabilities, every effort is made to ensure that their employment with the Company continues and that appropriate arrangements are made. It is the policy of the Company that the training, career development and promotion of employees with disabilities should, as far as possible, be identical to that of other employees.

Directors' indemnities
The Directors of the Company, including former Directors who retired during the year, have entered into individual deeds of indemnity with the Company which constitute 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds indemnify the Directors, and the directors of the Company's subsidiary companies, to the maximum extent permitted by law.

The deeds were in force for the whole of the year, or from the date of appointment for those appointed in the year. In addition the Company had Directors' and Officers' liability insurance cover in place.

DIRECTORS' REPORT CONTINUED

Auditor
A resolution to re-appoint Deloitte LLP as auditor will be proposed at the 2017 AGM. A statement in respect of the auditor, in accordance with Section 418 of the Companies Act 2006, has been included in the Directors' responsibilities statement on page 77.

Branches and financial risk management objectives and policies
The Company operates in over 60 countries, through branches and offices in the UK and overseas. Information about internal control and financial risk management objectives and policies in relation to the use of financial instruments can be found in note 34 to the financial statements, which are incorporated into this report by reference. Further information on risk management more generally can be found on page 20.

Financial instruments
Disclosure of the use of financial instruments by the Group can be found in note 34 to the financial statements.

Disclosures required under Listing Rule 9.8.4R
Additional information required to be disclosed by Listing Rule 9.8.4R, where applicable to the Group, can be found in the following pages of the Annual Report:

	Page
Amount of interest capitalised	N/a
Publication of unaudited financial information	N/a
Details of Long Term Incentive schemes	55
Allotment of equity securities	73
Significant contracts	75

Change of control
The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control of the Company following a takeover bid. However, the Group's Revolving Credit Facility Agreement would terminate upon a change of control of the Company. The Company does not have agreements with any director or employee providing compensation for loss of office or employment that occurs because of a takeover bid, except for provisions in the rules of the Company's share schemes which result in options or awards granted to employees vesting on a takeover.

Political donations
No contributions were made to political parties during the year (2015: £Nil).

Directors and their responsibilities
The current Directors who served during the year and up to the date of this report are detailed on pages 32 to 34.

Details of those Directors seeking election or re-election at the forthcoming AGM of the Company will be included in the Notice of Meeting to that will be sent to shareholders in due course.

Further discussion of the Board's activities, powers and responsibilities appears within the Corporate governance section on pages 38 to 39. Information on compensation for loss of office is contained in the Directors' Remuneration report on pages 52 to 71.

DIRECTORS' REPORT CONTINUED

Greenhouse gas emissions

For the year ended 31 December 2016[1], Coats reported the following emissions:

Global tonnes of CO_2e[2, 3, 4]	2016	2015
Direct (Gas, coal, oil)	70.9	75.6
Indirect (Electricity)	247.6	240.2

1 Calendar year 2015, all units, (incl. EMEA Crafts (7 months) and Coats Manila Bay, Inc. (11 months)). Calendar year 2016, all units.

2 Based on IEA CO_2 Emissions from Fuel Combustion, OECD/IEA, Paris, 2016, and the 2015 & 2016 UK DEFRA GHG reporting guidance and conversion factors. Includes Scope 1 – direct emissions from the combustion of fuel (gas, coal and oil) and Scope 2 – indirect emissions from the purchase of electricity.

3 Emissions reported are from energy consumption in our global operations.

4 Restatement of 2015 Direct emissions to include Bangladesh fuel for electricity generation. Restatement of 2015 Indirect is purely the move from Defra to IEA conversion factors.

This represents an increase of 1% versus 2015 total emissions.

The methodology for Scope 1 direct emissions is to convert fuel consumed in kWh to GHG equivalent using DEFRA published global conversion factors.

The methodology for Scope 2 indirect emissions is to convert the electricity or other purchased energy in each country from KWh to GHG equivalent using the country level conversion factors published by the IEA for all countries, with the exception of the United Kingdom where the electricity or other purchased energy was converted from KWh to GHG equivalent using the DEFRA conversion factor. The resultant figures are then consolidated globally.

Greenhouse gases emitted per unit of production (kg per kg of dyed product)

2016	2015[1]	2014	2013[2]	2012
4.6	4.5	5.1	5.3	5.6

1 Recalculation of 2015 reported figures are based on IEA conversion factors for Scope 2 emissions.

2 Scope 2 emissions for 2013 and 2012 continue to be calculated using Defra country level figures derived from IEA data.

Further details can be found in the Corporate Responsibility section on pages 18 and 19 of this report.

This Directors' report was approved by order of the Board.

On behalf of the Board

Stuart Morgan
Company Secretary

9 March 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

THE DIRECTORS ARE RESPONSIBLE FOR PREPARING THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS IN ACCORDANCE WITH APPLICABLE LAW AND REGULATIONS.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITIES STATEMENT CONTINUED

Responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Mike Clasper
9 March 2017

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC

Opinion on financial statements of Coats Group plc
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's and the parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows;
- the group related notes 1 to 37
- the Company Balance Sheet
- the Company Statement of Changes in Equity;
- the Company Cash Flow Statement; and
- the Company related notes 1 to 9.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC CONTINUED

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • Lower Passaic River Study Area litigation provision • Carrying value of fixed assets and intangibles • Material assumptions underlying retirement benefit obligations • Taxation
Materiality	The materiality that we used in the current year was $10m which was determined using 8% of adjusted profit before tax as the benchmark.
Scoping	Coats Group plc was subject to a full statutory audit by the group auditor. Due to the widespread nature of the group, the audit is subject to scoping decisions on overseas components. Our full-scope audit of components provided coverage of 70% of the group's revenue and 95% of the group's profit before tax.
Significant changes in our approach	As a result of the reduced risk and consequently lower required audit effort, we no longer include the following as key risks: • Going concern • Revenue recognition • Disposal of the EMEA Crafts business

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group
As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on page 25.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 77 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 20–24 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 25 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence
We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC CONTINUED

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risks from the prior year which have not been included in the current year report include Revenue recognition, the Disposal of EMEA Crafts and Going concern and the impact of the Pension Regulator's investigations. The Revenue recognition risk no longer had a significant impact on our audit strategy and the allocation of resources in the audit. The disposal of the EMEA Crafts business was concluded in the previous year and the agreement reached with the Pension Regulator before year end reduced the scale of these risks for the 2016 audit.

Lower Passaic River Study Area litigation provision

Risk description	Along with other textile manufacturers, and chemical producers, the group is subject to ongoing litigation proceedings by the US Environmental Protection Agency (EPA) in regard to environmental damage caused by historic operations of the group in the Lower Passaic River Study Area. Provisions require significant management judgment when assessing the likely outcome of litigation. Management have set out their considerations in respect of the Lower Passaic River Study Area litigation in note 28 of the financial statements. In March 2016, EPA issued a Record of Decision providing a basis for management to make a provision of $9 million, in respect of remediation costs net of insurance proceeds. This is currently considered by management to be the best estimate of the future liability, given the information available. Judgement is required to estimate what, if any, the group's share of the total remediation costs is likely to be. Management identify provisions as a source of significant estimation uncertainty in note 1 of the financial statements and discuss the matter as a significant financial and reporting issue in the Audit and Risk Committee report on page 41.
How the scope of our audit responded to the risk	We challenged managements' assumptions including a review of evidence used in determining provisions for the Lower Passaic River Study Area litigation, both in terms of appropriateness of recognition and in terms of valuation. We verified the material cash outflows relating to the utilisation of the legal provision and made enquiries of management to confirm whether any further correspondence had been received in connection with this matter. We considered the legal advice management had obtained in relation to litigation and directly challenged and discussed with key legal advisers. We scrutinised the insurance policies held against the potential liabilities to confirm the estimated net cash outflow.
Key observations	We found that management's provision is within a range of reasonable estimates of the future liability and has properly taken into account the latest information available from their legal advisers.

Material assumptions underlying retirement benefit obligations

Risk description	The group has a number of defined benefit pension schemes that, together, are in a net deficit position of $627 million, which is material both in the context of the overall balance sheet and the results of the group. The schemes in the UK account for $576 million of the net deficit. The gross actuarial value of scheme liabilities of Coats Group plc is $3,169 million (2015: $3,249 million) which represents an area of significant judgement for management, particularly in relation to the assumptions adopted such as discount, inflation and mortality rates. The key assumptions underlying the valuation of the pension schemes are presented in note 10 of the financial statements. This is also identified as a source of significant estimation uncertainty in note 1 of the financial statements and discussed as a significant financial and reporting issue in the Audit and Risk Committee report on page 40.
How the scope of our audit responded to the risk	We worked with our own actuarial experts to challenge the assumptions such as discount, inflation and mortality rates underlying management's calculation of the group defined benefit schemes. We have compared these assumptions to industry benchmarks and prior year rates. We evaluated the competence of the experts that management engaged to calculate the defined benefit pension schemes, by confirming they are qualified and affiliated with the appropriate industry body; and we evaluated the sensitivity of the pension scheme liabilities to differences between our independent judgements and those made by management, both individually and in aggregate.
Key observations	The key assumptions used in the calculation of the retirement benefit obligations were within the ranges expected by our pension experts.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

Carrying value of intangible assets and tangible assets

Risk description	The Group holds $240 million of brands (2015: $240 million) and $40 million of other intangible assets (2015: $19 million) including goodwill as shown in note 13 to the financial statements. These are tested annually for impairment. Management identified impairment indicators for the $37 million of tangible assets held in Brazil following difficult trading conditions and continued volatility in the exchange rates. These impairment tests require significant management judgement and are based on assumptions about future cash flows, discount rates and growth rates. This is also identified as a and source of significant estimation uncertainty in note 1 of the financial statements and discussed as a significant financial and reporting issue in the Audit and Risk Committee report on page 41.
How the scope of our audit responded to the risk	We focussed our work on territories that have shown sustained low, negative trading results, have been hard to forecast or other indicators that have come to light during the period, in particular Brazil. We assessed management's assumptions used in the impairment model for tangible and intangible assets, described in note 13 to the financial statements, including cash flow projections, discount rate and sensitivities used. We considered the historical accuracy of management's forecasts, challenged the assumptions, considered potentially contradictory evidence and applied further sensitivities.
Key observations	We concluded that the assumptions used were reasonable and had been determined and applied on a consistent basis across the group. No additional impairments were identified from the work performed. The impairment calculations display sufficient headroom in respect of the $240 million brands carrying value and the $37 million of tangible assets held in Brazil.

Taxation

Risk description	Due to the nature and complexity of tax legislation in the multiple jurisdictions in which the group operates, management are required to exercise a degree of judgement as to the application of corporation tax laws and the recoverability of deferred tax assets. The group effective tax rate is 38% (2015: 54%).
How the scope of our audit responded to the risk	We worked with our tax specialists in key jurisdictions to evaluate and challenge the appropriateness of judgements and assumptions made by management with respect to their assessment and valuation of tax risks and uncertain tax positions, including a review of applicable third party evidence and correspondence with tax authorities to assess the adequacy of associated provision and disclosures. We reviewed the changes in effective tax rates in each significant jurisdiction and basis for these changes. We evaluated management's forecasts and assessed management's conclusions on the sufficiency and availability of future profits to support the recognition of deferred tax assets with reference to forecast taxable profits and consistency of these forecasts with the group's budgets. This is also identified as a critical judgement and a source of significant estimation uncertainty in note 1 of the financial statements and discussed as a significant financial and reporting issue in the Audit and Risk Committee report on page 41.
Key observations	We are satisfied that the provisions raised in respect of the group's potential taxation exposures are appropriate and that deferred tax assets are based on reasonable estimates and recognised in line with the relevant accounting standards

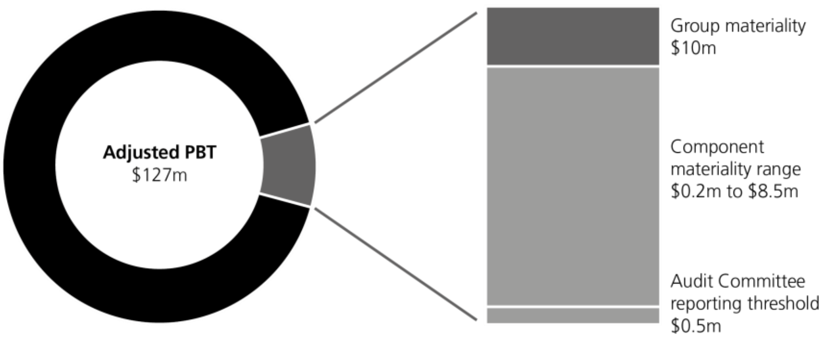
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	$10m (2015: $8m)
Basis for determining materiality	Materiality has been determined as 8% (2015: 8%) of adjusted profit before tax. Adjusted profit before tax has been calculated as profit before tax excluding exceptional and acquisition items as described in note 4. By way of reference, this is 0.7% (2015: 0.5% of Revenue) and 0.6% (2015: 0.5%) of total assets.
Rationale for the benchmark applied	We have determined materiality based on professional judgement, the requirements of auditing standards and the financial measure most relevant to user of the financial statements. Adjusted profit before tax is a key measure used by Coats Group plc in reporting results and is considered to be the most appropriate basis for determining materiality for a global manufacturer.



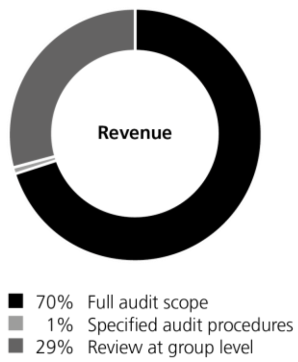
We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of $0.50m (2015: $0.56m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

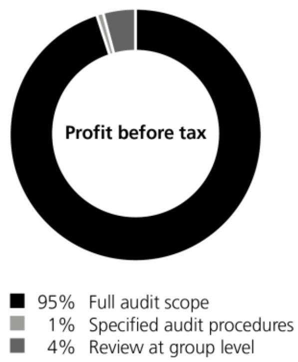
An overview of the scope of our audit
Coats Group plc was subject to a full statutory audit by the group auditor. Due to the geographically widespread nature of the Group, the audit is subject to scoping decisions on overseas components. We identified 12 financially significant overseas components spread across five continents, and our involvement in their audits is as follows: the senior members of the audit team and Senior Statutory Auditor follow a programme of planned site visits, planning calls and closing meetings. The group auditor also reviews the work of overseas component auditors, where considered necessary. The components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. For the new acquisitions made during the period we designed focused procedures for the opening balance sheets. We performed focused procedures on several significant components which transitioned key financial reporting processes into shared service centres during the period. Our audit work at the components identified above was executed at levels of materiality which were lower than Group materiality.

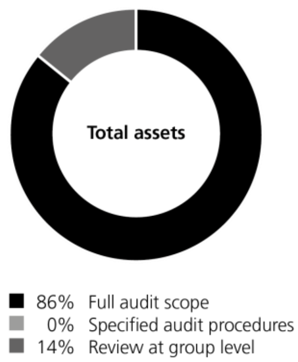
Our audit provided direct coverage of 95% (2015:99%) of the group's profit before tax and 70% (2015: 71%) of the group's revenue and 86% (2015:85%) of the group's total assets subject to full scope audit or audit of specified account balances.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED







Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- or the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement
Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006.

Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy Biggs FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

9 March 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Notes	2016 Before exceptional and acquisition related items US$m	2016 Exceptional and acquisition related items US$m	2016 Total US$m	2015[1] Before exceptional and acquisition related items US$m	2015[1] Exceptional and acquisition related items US$m	2015[1] Total US$m
Continuing operations:							
Revenue	2,3	**1,457.3**	**–**	**1,457.3**	1,472.5	–	1,472.5
Cost of sales		**(892.3)**	**–**	**(892.3)**	(921.2)	(16.5)	(937.7)
Gross profit		**565.0**	**–**	**565.0**	551.3	(16.5)	534.8
Distribution costs		**(197.2)**	**–**	**(197.2)**	(196.8)	–	(196.8)
Administrative expenses		**(210.1)**	**(4.6)**	**(214.7)**	(215.3)	(21.1)	(236.4)
Other operating income		**0.2**	**–**	**0.2**	0.7	9.2	9.9
Operating profit	2,4	**157.9**	**(4.6)**	**153.3**	139.9	(28.4)	111.5
Share of profits of joint ventures	15	**0.8**	**–**	**0.8**	1.5	(1.5)	–
Investment income	6	**4.3**	**–**	**4.3**	10.5	–	10.5
Finance costs	7	**(35.9)**	**–**	**(35.9)**	(41.7)	–	(41.7)
Profit before taxation	5	**127.1**	**(4.6)**	**122.5**	110.2	(29.9)	80.3
Taxation	9	**(47.2)**	**0.4**	**(46.8)**	(46.2)	2.5	(43.7)
Profit from continuing operations		**79.9**	**(4.2)**	**75.7**	64.0	(27.4)	36.6
Loss from discontinued operations	32	**(3.3)**	**(1.2)**	**(4.5)**	(13.2)	(62.8)	(76.0)
Profit/(loss) for the year		**76.6**	**(5.4)**	**71.2**	50.8	(90.2)	(39.4)
Attributable to:							
Equity shareholders of the company		**64.7**	**(5.4)**	**59.3**	39.6	(90.2)	(50.6)
Non-controlling interests		**11.9**	**–**	**11.9**	11.2	–	11.2
		76.6	**(5.4)**	**71.2**	50.8	(90.2)	(39.4)
Earnings/(loss) per ordinary (cents):	11						
Continuing operations:							
Basic				**4.60**			1.81
Diluted				**4.53**			1.81
Continuing and discontinued operations:							
Basic				**4.28**			(3.61)
Diluted				**4.22**			(3.61)
Adjusted earnings per share	37(b)			**4.91**			4.00

1 Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1(b)).

Notes on pages 92 to 148 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2016 US$m	2015 US$m
Profit/(loss) for the year	**71.2**	(39.4)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (losses)/gains on retirement benefit schemes	**(324.8)**	67.2
Tax on items that will not be reclassified	**0.1**	(3.4)
	(324.7)	63.8
Items that may be reclassified subsequently to profit or loss:		
Loss on cash flow hedges arising during the year	**(0.9)**	(1.7)
Transferred to profit or loss on cash flow hedges	**1.3**	3.0
Exchange differences on translation of foreign operations	**1.3**	(66.2)
Exchange differences transferred to profit or loss on sale of business	**–**	7.5
Exchange differences transferred to profit or loss on sale of investment	**–**	(0.5)
	1.7	(57.9)
Other comprehensive income and expense for the year	**(323.0)**	5.9
Net comprehensive income and expense for the year	**(251.8)**	(33.5)
Attributable to:		
Equity shareholders of the company	**(263.0)**	(44.0)
Non-controlling interests	**11.2**	10.5
	(251.8)	(33.5)

Notes on pages 92 to 148 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Notes	2016 US$m	2015 US$m
Non-current assets:			
Intangible assets	13	**291.8**	261.2
Property, plant and equipment	14	**265.9**	273.0
Investments in joint ventures	15	**11.0**	10.8
Available-for-sale investments	15	**1.1**	1.5
Deferred tax assets	16	**18.1**	12.5
Pension surpluses	10	**50.8**	52.5
Trade and other receivables	18	**16.1**	16.4
		654.8	627.9
Current assets:			
Inventories	17	**205.8**	204.0
Trade and other receivables	18	**248.4**	261.9
Available-for-sale investments	15	**0.2**	0.2
Pension surpluses	10	**6.7**	6.6
Cash and cash equivalents	30(e)	**476.5**	649.9
Non-current assets classified as held for sale		**0.2**	–
		937.8	1,122.6
Total assets		**1,592.6**	1,750.5
Current liabilities:			
Trade and other payables	20	**(310.8)**	(320.7)
Current income tax liabilities		**(8.9)**	(12.5)
Bank overdrafts and other borrowings	22	**(7.7)**	(20.2)
Retirement benefit obligations:			
– Funded	10	**(309.6)**	(33.9)
– Unfunded	10	**(6.2)**	(6.2)
Provisions	24	**(17.1)**	(44.4)
		(660.3)	(437.9)
Net current assets		**277.5**	684.7
Non-current liabilities:			
Trade and other payables	20	**(15.8)**	(12.4)
Deferred tax liabilities	23	**(31.7)**	(33.0)
Borrowings	22	**(390.6)**	(389.1)
Retirement benefit obligations:			
– Funded schemes	10	**(272.0)**	(394.1)
– Unfunded schemes	10	**(96.4)**	(94.2)
Provisions	24	**(34.8)**	(35.8)
		(841.3)	(958.6)
Total liabilities		**(1,501.6)**	(1,396.5)
Net assets		**91.0**	354.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
CONTINUED

31 December	Notes	2016 US$m	2015 US$m
Equity:			
Share capital	26	**127.0**	127.0
Share premium account	27	**11.6**	11.6
Own shares	26, 27	**(10.5)**	(7.6)
Translation reserve	27	**(121.1)**	(123.1)
Capital reduction reserve	27	**85.2**	85.2
Other reserves	27	**250.9**	250.5
Retained loss	27	**(274.6)**	(14.3)
Equity shareholders' funds		**68.5**	329.3
Non-controlling interests	27	**22.5**	24.7
Total equity		**91.0**	354.0

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 9 March 2017

Company Registration No.103548

Notes on pages 92 to 148 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained loss US$m	Total US$m	Non-controlling interests US$m
Balance as at 1 January 2015	127.0	11.6	–	(64.6)	85.2	249.2	(32.1)	376.3	24.3
Net comprehensive income and expense for the year	–	–	–	(58.5)	–	1.3	13.2	(44.0)	10.5
Dividends	–	–	–	–	–	–	–	–	(10.1)
Purchase of own shares	–	–	(7.6)	–	–	–	–	(7.6)	–
Share based payments	–	–	–	–	–	–	4.6	4.6	–
Balance as at 31 December 2015	127.0	11.6	(7.6)	(123.1)	85.2	250.5	(14.3)	329.3	24.7
Net comprehensive income and expense for the year	**–**	**–**	**–**	**2.0**	**–**	**0.4**	**(265.4)**	**(263.0)**	**11.2**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13.4)**
Purchase of own shares	**–**	**–**	**(2.9)**	**–**	**–**	**–**	**–**	**(2.9)**	**–**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**5.1**	**5.1**	**–**
Balance as at 31 December 2016	**127.0**	**11.6**	**(10.5)**	**(121.1)**	**85.2**	**250.9**	**(274.6)**	**68.5**	**22.5**

Notes on pages 92 to 148 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2016 US$m	2015 US$m
Cash inflow from operating activities:			
Net cash inflow from operations	30(a)	**79.4**	108.9
Interest paid		**(14.0)**	(15.3)
Taxation paid		**(57.9)**	(49.3)
Net cash generated by operating activities		**7.5**	44.3
Cash outflow from investing activities:			
Investment income	30(b)	**4.0**	10.0
Net capital expenditure and financial investment	30(c)	**(38.7)**	(31.9)
Acquisitions and disposals	30(d)	**(40.4)**	(26.1)
Net cash absorbed in investing activities		**(75.1)**	(48.0)
Cash outflow from financing activities:			
Purchase of own shares		**(2.9)**	(7.6)
Receipts from exercise of share options		**0.2**	–
Dividends paid to non-controlling interests		**(13.4)**	(10.1)
Net increase in debt and lease financing		**3.3**	1.3
Net cash absorbed in financing activities		**(12.8)**	(16.4)
Net decrease in cash and cash equivalents		**(80.4)**	(20.1)
Net cash and cash equivalents at beginning of the year		**631.4**	710.4
Foreign exchange losses on cash and cash equivalents		**(80.7)**	(58.9)
Net cash and cash equivalents at end of the year	30(e)	**470.3**	631.4
Reconciliation of net cash flows to movements in net cash:			
Net decrease in cash and cash equivalents		**(80.4)**	(20.1)
Net increase in debt and lease financing		**(3.3)**	(1.3)
Change in net cash resulting from cash flows (Free cash flow)		**(83.7)**	(21.4)
Other non-cash movements		**(1.6)**	(3.1)
Foreign exchange losses		**(77.1)**	(55.8)
Decrease in net cash		**(162.4)**	(80.3)
Total net cash at the start of the year		**240.6**	320.9
Total net cash at the end of the year	30(e)	**78.2**	240.6

Notes on pages 92 to 148 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

The following are the principal accounting policies adopted in preparing the financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The principal accounting policies adopted by the Group are set out in this note to the consolidated financial statements. Certain of the Group's accounting policies inherently rely on subjective assumptions and judgements, such that it is possible over time the actual results could differ from the estimates based on the assumptions and judgements used by the Group. Due to the size of the amounts involved, changes in the assumptions relating to the following policies could potentially have a significant impact on the result for the year and/or the carrying values of assets and liabilities in the consolidated financial statements:

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant impact on the amounts recognised in the financial statements.

- Recognition of deferred tax assets

The Group has exercised accounting estimation and judgement in relation to the recognition of deferred tax assets on income tax losses in various countries.

The recognition of deferred tax assets, particularly in relation to tax losses, is based on whether it is probable that future profits will be available in the relevant legal entity or tax group against which the asset can be utilised.

Judgement is required when determining probable future taxable profits. The Group uses the recent performance of the relevant entity along with the detailed forecast for the next financial year, and the Medium Term Plan providing two further years of forecast data. The trends shown in these forecasts are extrapolated for an additional two years to estimate the probable future taxable profits available. The Group has taken the view not to recognise deferred tax assets on losses where there are insufficient future taxable profits arising within five years of the balance sheet date.

The carrying value of the Group's deferred tax assets is included in note 16.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

- Pension and other employee benefit obligations

The retirement benefit obligations recognised in the statement of financial position in respect of defined employee benefits are the present values of the defined benefit obligations at the year end less the fair value of any associated assets. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, beneficiary mortality and benefits in payment inflation rates. Changes in any or all of these assumptions could materially change the employee benefit obligations recognised in the statement of financial position.

The carrying values of the Group's pension obligations as well as a sensitivity analysis relating to the Group's major defined benefit pension arrangements are included in note 10.

- Carrying value of intangible assets and tangible assets

The carrying value of intangible assets and tangible assets is dependent on the calculation of discounted cash flows arising from the cash-generating units to which those assets relate. Changes in either the discount rates applied or the estimated cash flows could materially change the carrying values of these assets.

The carrying values of the Group's intangible and tangible assets are included in notes 13 and 14 respectively.

- Provisions

In determining the level of provisions held at year end the Board takes advice from external experts as appropriate. The nature of the estimates adopted is such that the final liability that crystallises may differ from these estimates. In particular there is estimation uncertainty as to what, if any, the Group's share of total remediation costs is likely to be in respect of the Lower Passaic River Study Area for which a provision of $9.0 million, net of insurance reimbursements, has been recorded as set out in notes 24 and 28.

- Uncertain tax provisions

The Group's current tax liability includes a number of tax provisions totalling $8.4 million (2015: $7.2 million) relating to management's estimate of the amount of tax payable on open tax returns yet to be agreed with the local tax authorities. The Group evaluates uncertain tax items, which are subject to interpretation and agreement of the position with the local Tax Authorities and consequently agreement may not be reached for a number of years. Primarily the tax items for which a provision has been made relate to the interpretation of transfer pricing legislation and practices across the jurisdictions in which the Group operates.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The final outcome on resolution of open issues with the relevant local Tax Authorities may vary significantly due to the uncertainty associated with such tax items and the continual evolution and development of local Tax Authorities. There is a wide range of possible outcomes and any variances in the final outcome to the provided amount will affect the tax financial results in the year of agreement.

The amount provided for uncertain tax positions has been made using the best estimate of the tax expected to be ultimately paid, taking into account any progress on the discussions with local Tax Authorities, together with expert in-house and third party advice on the potential outcome and recent developments in case law, Tax Authority practices and previous experience.

a) Accounting convention and format

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore Group's financial statements comply with Article 4 of the EU IAS Regulations.

The same accounting policies, presentation and methods of computation have been followed in these consolidated financial statements as applied in the Group's annual financial statements for the year ended 31 December 2015.

b) Discontinued operations

Following on from the disposal of the EMEA Crafts business in 2015, Coats closed its loss-making UK Crafts operations with the business ceasing operations during the second half of 2016. The results of the UK Crafts business have been reported as a discontinued operation. Accordingly, prior year amounts in the consolidated income statement have been reclassified to discontinued operations. Note 32 provides details on the results of the UK Crafts business.

c) Basis of preparation

Subsidiaries

Subsidiaries are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate, or the subsidiary meets the criteria to be classified as held for sale. The effective date is when control passes to or from the Group. Control is achieved when the Group has the power over the investee and is exposed, or has the rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control. Where necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those used by the Group.

Where subsidiaries are not 100% owned by the Group, the share attributable to outside shareholders is reflected in non-controlling interests. Non-controlling interests are identified separately from the Group's equity, and may initially be measured at either fair value or at the non-controlling interests' share of the fair value of the subsidiary's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Changes in the Group's interests in subsidiaries, that do not result in a loss of control, are accounted for as equity transactions. Where control is lost, a gain or loss on disposal is recognised through the consolidated income statement, calculated as the difference between the fair value of consideration received (plus the fair value of any retained interest) and the Group's previous share of the former subsidiary's net assets. Amounts previously recognised in other comprehensive income in relation to that subsidiary are reclassified and recognised through the income statement as part of the gain or loss on disposal.

Joint ventures

Joint ventures are entities in which the Group has joint control, shared with a party outside the Group. The Group reports its interests in joint ventures using the equity method.

Going concern

Giving due consideration to the nature of the Group's business and taking account of the following matters: the Group's foreign currency exposures; the binding settlement agreement with the Trustees of the Coats UK Pension Plan and Brunel Holdings Pension Scheme announced on 17 February 2017, the proposed settlement offer open to the Trustees of the Staveley Industries Retirement Benefits Scheme; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Company and the Group are going concerns and these financial statements are prepared on that basis. Further detail is contained in the corporate governance section on page 43.

d) Foreign currencies

Foreign currency translation

The Group's presentation currency is US Dollars. Transactions of companies within the Group are recorded in the functional currency of that company. Currencies other than the functional currency are foreign currencies.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the period end. All currency differences on monetary items are taken to the consolidated income statement with the exception of currency differences that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Group companies

Assets and liabilities of subsidiaries whose presentation currency is not US Dollars are translated into the Group's presentation currency at the rates of exchange ruling at the period end and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation since 1 January 2004 are taken to a separate component of equity. On disposal of such an entity, the deferred cumulative amount recognised in equity since 1 January 2004 relating to that particular operation is recycled through the consolidated income statement. Translation differences that arose before the date of transition to IFRS in respect of all such entities are not presented as a separate component of equity.

Goodwill and fair value adjustments arising on acquisition of such operations are regarded as assets and liabilities of the particular operation, expressed in the currency of the operation and recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

The principal exchange rates (to the US dollar) used in preparing these financial statements are as follows:

		2016	2015
Average	Sterling	**0.74**	0.65
	Euro	**0.90**	0.90
	Brazilian Real	**3.48**	3.34
	Indian Rupee	**67.16**	64.12
Period end	Sterling	**0.81**	0.68
	Euro	**0.95**	0.92
	Brazilian Real	**3.25**	3.96
	Indian Rupee	**67.92**	66.15

e) Operating segments

Operating segments are components of the Group about which separate financial information is available that is evaluated by the Coats Group plc Board in deciding how to allocate resources and in assessing performance.

f) Operating profit

Operating profit is stated before the share of results of joint ventures, investment and interest income, finance costs and foreign exchange gains and losses from cash and cash equivalents used in investing activities.

g) Exceptional and acquisition related items

The Group has adopted an income statement format which seeks to highlight significant non-recurring items within the Group results for the year. Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, gains or losses arising from de-risking of defined benefit pension obligations, regulatory investigation costs and impairment of assets. Acquisition related items include amortisation of acquired intangible assets, acquisition transaction costs, contingent consideration linked to employment and adjustments to contingent consideration.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, quantitative as well as qualitative factors such as frequency or predictability of occurrence are considered. This is consistent with the way financial performance is measured by management and reported to the Board.

h) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairments.

Leased assets

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Subsequent expenditure
Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment, and major components that are accounted for separately. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years to 100 years
Leasehold buildings	10 years to 50 years or over the term of the lease if shorter
Plant and equipment	3 years to 20 years
Vehicles and office equipment	2 years to 10 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each period end.

i) Intangible assets
Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. CGUs represent the Group's investment in each of its business segments.

Negative goodwill is recognised immediately in the income statement.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The estimated useful lives (other than the Coats Brand) are as follows:

Brands and trade names	10 years to 20 years
Technology	5 years to 10 years
Customer relationships	9 years to 14 years

The useful life of the Coats Brand is considered to be indefinite.

Other intangibles
Acquired computer software licences and computer software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives of up to 5 years.

Intellectual property, comprising trademarks, designs, patents and product development which have a finite useful life, are carried at cost less accumulated amortisation and impairment charges. Amortisation is calculated using the straight-line method to allocate the cost over the assets' useful lives, which vary from 5 to 10 years.

Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are measured at the CGU level.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Research and development
All research costs are expensed as incurred.

An internally-generated intangible asset arising from development is recognised only if all of the following conditions are met:

- an asset is created that can be separately identified;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

j) Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant financial instrument.

Financial assets
(i) Available for sale investments
Available for sale investments are recognised and derecognised on a trade date basis and are initially measured at fair value, plus directly attributable transaction costs and are remeasured at subsequent reporting dates at fair value. Listed investments are stated at market value. Unlisted investments are stated at fair value based on directors' valuation, which is supported by external experts' advice or other external evidence.

(ii) Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(iii) Trade and other receivables
Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Financial liabilities
(i) Trade payables
Trade payables are not interest-bearing and are stated at nominal value.

(ii) Borrowings
Interest-bearing loans and overdrafts are initially measured at fair value, net of direct issue costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised over the period of the relevant liabilities.

(iii) Compound instruments
The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument, and this amount is recorded as a liability at amortised cost. The equity component is the fair value of the compound instrument as a whole less the amount of the liability component, and is recognised in equity, net of income tax effect, without subsequent remeasurement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value being recognised in the income statement.

(iv) Derivative financial instruments and hedge accounting
The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates.

The use of financial derivatives is regulated by the Board or that of the relevant operating subsidiary in accordance with their respective risk management strategies. Changes in values of all derivatives of a financing nature are included within investment income and finance costs in the income statement.

Derivative financial instruments are initially measured at fair value at contract date and are remeasured at each reporting date.

The Group designates hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of interest rate risk are accounted for as cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

At the inception of each hedge transaction the issuing entity documents the relationship between the hedging instrument and the hedged item and the anticipated effectiveness of the hedge transaction, and monitors the ongoing effectiveness over the period of the hedge. Hedge accounting is discontinued when the issuing entity revokes the hedging relationship, the hedge instrument expires, is sold, exercised or otherwise terminated, and the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the income statement from that date.

(v) Fair value hedges
Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recognised immediately through the income statement, together with any changes in the fair value of the related hedged items due to changes in the hedged risks. On discontinuation of the hedge the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the consolidated income statement from that date.

(vi) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. Once the related hedged item is recognised in the income statement, the amounts deferred in equity are recycled through the consolidated income statement. The gain or loss arising from any ineffective portion of the hedge is recognised immediately through the consolidated income statement.

(vii) Hedges of net investments in foreign operations
Gains and losses on hedging instruments relating to the effective portion of such hedges are recognised through the translation reserve, and recycled through the consolidated income statement on disposal of the respective foreign operations. The gain or loss arising from any ineffective portion of such hedges is recognised immediately through the consolidated income statement.

k) Revenue
Revenue comprises the fair value of the sale of goods and services, net of sales tax and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods
Sales of goods are recognised in revenue when the associated risks and rewards of ownership of the goods have been transferred to the buyer.

(ii) Sales of services
Sales of services are recognised in the period in which the services are rendered, by reference to the stage of completion of those services at the period end.

(iii) Income from sales of property
Income from sales of property is recognised on completion when legal title of the property passes to the buyer.

l) Inventories
Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials are valued at cost on a first-in, first-out basis.

The costs of finished goods and work in progress include direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving and defective inventories.

m) Employee benefits
(i) Retirement and other post-employment obligations
For retirement and other post-employment benefit obligations, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period by independent actuaries. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to the consolidated statement of comprehensive income in the period in which they occur. Remeasurement recorded in the consolidated statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past-service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- actuarial gains and losses.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The Group presents current and past service costs within cost of sales and administrative expenses in its consolidated income statement. Curtailments gains and losses are accounted for as past-service cost.

Net interest expense or income is recognised within finance costs.

Actuarial gains and losses are recognised in the consolidated statement of comprehensive income.

In addition, pension scheme administrative expenses including the PPF (Pension Protection Fund) levy and actuary, audit, legal and trustee charges are recognised as administrative expenses.

The retirement benefit and other post employment benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Share-based compensation

Cash-settled

The Group operates a cash-settled share-based compensation plan for the benefit of certain employees. Cash-settled share-based payments are measured at fair value (excluding the effect of non market based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

Equity-settled

The Group operates an equity-settled Long Term Incentive Plan for executives and senior management. Awards under this plan are subject to both market-based and non-market-based vesting criteria.

The fair value at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. The fair value is charged to the consolidated income statement on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected vesting for non market-based performance conditions and forfeitures . The corresponding credit is to equity shareholders' funds.

To satisfy awards under this Plan, shares may be purchased in the market by an Employee Benefit Trust over the vesting period.

(iii) Non-share-based long term incentive schemes

The anticipated present value cost of non-share-based incentive schemes is charged to the consolidated income statement on a straight-line basis over the period the benefit is earned, based on remuneration rates that are expected to be payable.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the period end are discounted to present value.

n) Taxation

The tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the period end.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying values of deferred tax assets are reviewed at each period end.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

o) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs, except where otherwise stated, are recognised in the income statement in the period in which they are incurred.

p) Provisions
A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

q) Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

r) Restructuring
A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

s) Assets held for sale and discontinued operations
Non-current assets and businesses which are to be sold (‘disposal groups’) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets (and disposal groups) are classified as held for sale if their carrying amount is expected to be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when such a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets are classified as held for sale from the date these conditions are met, and such assets are no longer depreciated.

Discontinued operations are classified as held for sale and are either a separate business segment or a geographical area of operations that is part of a single coordinated plan to sell. Once an operation has been identified as discontinued, or is reclassified as discontinued, the comparative information in the Income Statement is restated.

New IFRS accounting standards and interpretations adopted in the year
During the year, the Group has adopted the following standards and interpretations:

- IFRS 14 (‘Regulatory Deferral Accounts’);
- Amendments to IAS 1 (‘Disclosure Initiative’);
- Amendments to IAS 16 and IAS 38 (‘Clarification of Acceptable Methods of Depreciation and Amortisation’);
- Amendments to IAS 19 (‘Defined Benefit Plans: Employee Contributions’);
- Amendments to IFRS 10, IFRS 12 and IAS 28 (‘Investment Entities: Applying the Consolidation Exception’);
- Amendments to IFRS 11 (‘Accounting for Acquisitions of Interests in Joint Operations’);
- Annual Improvements to IFRSs 2010–2012 Cycle; and
- Annual Improvements to IFRSs 2012–2014 Cycle.

The adoption of these standards and interpretations has had no significant impact on these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
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New IFRS accounting standards and interpretations not yet adopted
The following published standards and amendments to existing standards, which have not yet all been endorsed by the EU, are expected to be effective as follows:

From the year beginning 1 January 2017:

- Amendments to IAS 12 ('Recognition of Deferred Tax Assets for Unrealised Losses');
- Amendments to IAS 7 ('Disclosure Initiative'); and
- Annual Improvements to IFRSs 2014-2016 Cycle.

From the year beginning 1 January 2018:

- IFRS 9 ('Financial instruments');
- IFRS 15 ('Revenue from Contracts with Customers');
- Amendments to IFRS 2 ('Clarify the classification and measurement of share based payment transactions');
- Amendments to IAS 40 ('Clarify transfers of property to, or from, investment property'); and
- Annual Improvements to IFRS's 2014–2016 cycle.

From the year beginning 1 January 2019:

- IFRS 16 ('Leases').

Other than IFRS 9, 15 and 16 the directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods, although the full assessment is not complete.

IFRS 9 'Financial Instruments' will impact both the measurement and disclosure of financial instruments.

IFRS 15 'Revenue from Contracts with Customers' may change the timing of revenue recognition. In particular IFRS 15 is likely to impact the timing of the Group's services revenue. Revenue from technology solutions services is currently less than 1% of Group revenue and therefore the impact on this revenue stream will not be material. The full impact of the future adoption of IFRS 15 is being assessed.

IFRS 16 'Leases' will change how the Group recognises, measures, presents and discloses leases. The standard requires the Group to recognise assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The effect on the Group is being reviewed.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 16 until the detailed review has been completed.

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2 Segmental analysis
The Group has two reportable segments: Industrial and Crafts. Both segments include businesses with similar operating and market characteristics. These segments are consistent with the internal reporting as reviewed by the Coats Group plc Board (the 'Chief Operating Decision Maker').

a) Segment revenue and results

Year ended 31 December 2016	Industrial US$m	Crafts US$m	Total US$m
Revenue	**1,221.2**	**236.1**	**1,457.3**
Segment profit	**154.7**	**10.8**	**165.5**
UK pension scheme administrative expenses			**(7.6)**
Operating profit before exceptional and acquisition related items			**157.9**
Exceptional and acquisition related items (note 4)			**(4.6)**
Operating profit			**153.3**
Share of profit of joint ventures			**0.8**
Investment income			**4.3**
Finance costs			**(35.9)**
Profit before taxation from continuing operations			**122.5**

Year ended 31 December 2015	Industrial US$m	Crafts US$m	Total US$m
Revenue	1,212.5	260.0	1,472.5
Segment profit	135.2	14.9	150.1
UK pension scheme administrative expenses			(10.2)
Operating profit before exceptional and acquisition related items			139.9
Exceptional and acquisition related items (note 4)			(28.4)
Operating profit			111.5
Share of profit of joint ventures			–
Investment income			10.5
Finance costs			(41.7)
Profit before taxation from continuing operations			80.3

The accounting policies of the reportable operating segments are the same as the Group's accounting policies described in note 1. Operating profit is the measure reported to the Company's directors for the purpose of resource allocation and assessment of segment performance for continuing operations.

b) Assets and liabilities

	Industrial US$m	Crafts US$m	Adjustments, eliminations and unallocated assets and liabilities US$m	Total US$m
Assets				
31 December 2016	**370.6**	**88.3**	**5.3**	**464.2**
31 December 2015	366.1	105.8	2.7	474.6
Liabilities				
31 December 2016	**(242.4)**	**(32.5)**	**(29.0)**	**(303.9)**
31 December 2015	(231.9)	(42.4)	(44.7)	(319.0)

NOTES TO THE FINANCIAL STATEMENTS
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Segmental assets includes trade and other receivables (excluding derivative financial instruments and current income tax assets) and inventories. Segmental liabilities includes trade and other payables (excluding derivative financial instruments and current income tax payables of $14.0 million (2015: $9.6 million) included in other payables due after one year). Adjustments, eliminations and unallocated assets and liabilities consist of elimination of intra group balances as well as assets and liabilities which have not been allocated to reportable segments.

c) Other segment information

Year ended 31 December	Additions to non-current assets		Depreciation and amortisation	
	2016 US$m	2015 US$m	2016 US$m	2015 US$m
Industrial	**34.2**	31.9	**32.0**	33.0
Crafts	**2.2**	3.3	**3.0**	3.7
Unallocated	**5.1**	7.1	**5.7**	6.9
	41.5	42.3	**40.7**	43.6

Additions to non-current assets and depreciation and amortisation excludes EMEA Crafts for both 2016 and 2015 as well as amortisation of acquired intangible assets of $1.3 million (2015: $Nil).

d) Geographic information

	Revenue by origin		Revenue by destination		Non-current assets	
Year ended 31 December	2016 US$m	2015[1] US$m	2016 US$m	2015[1] US$m	2016 US$m	2015 US$m
Europe, Middle East & Africa (EMEA)						
UK	**7.1**	1.4	**10.5**	9.3	**269.4**	267.5
Rest of EMEA	**245.1**	230.0	**234.9**	220.1	**69.1**	48.0
Americas						
USA	**267.6**	291.2	**256.2**	279.8	**48.5**	42.6
Rest of Americas	**217.4**	235.0	**230.1**	243.5	**43.0**	44.0
Asia & Rest of World						
India	**163.0**	169.1	**160.5**	163.2	**36.7**	37.7
China and Hong Kong	**174.1**	173.9	**161.8**	166.4	**36.2**	38.0
Vietnam	**148.4**	139.4	**134.8**	127.8	**28.8**	27.1
Other	**234.6**	232.5	**268.5**	262.4	**53.9**	53.6
	1,457.3	1,472.5	**1,457.3**	1,472.5	**585.6**	558.5

1 Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 32).

Non-current assets excludes derivative financial instruments, pension surpluses and deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS
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e) Information about products and customers
The Group's revenue by product type are as follows:

Year ended 31 December	2016 US$m	Restated 2015 US$m
Industrial – Apparel and Footwear	**974.8**	979.3
Industrial – Performance Materials	**246.4**	233.2
Crafts – Handknittings	**121.2**	140.9
Crafts – Needlecrafts	**114.9**	119.1
	1,457.3	1,472.5

The Group had no revenue from a single customer, which accounts for more than 10% of the Group's revenue.

NOTES TO THE FINANCIAL STATEMENTS
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3 Revenue
An analysis of the Group's revenue is as follows:

Year ended 31 December	2016 US$m	Restated 2015 US$m
Continuing operations:		
Sales of goods	**1,457.3**	1,472.5
Other operating income	**0.2**	9.9
Investment income	**4.3**	10.5
	1,461.8	1,492.9
Discontinued operations:		
Sales of goods	**8.8**	64.8
Investment income	–	0.1
	8.8	64.9
	1,470.6	1,557.8

4 Profit before taxation is stated after charging/(crediting):

Exceptional and acquisition related items:
The Group's consolidated income statement format includes results before and after exceptional and acquisition related items.

Exceptional items
Exceptional items are set out below:

Year ended 31 December	2016 US$m	2015 US$m
Exceptional items:		
Cost of sales:		
US environmental costs (note 28)	–	13.2
Reorganisation costs – Mexico	–	3.3
	–	16.5
Administrative expenses:		
Capital incentive plan charge	–	1.3
UK Pensions Regulator ('tPR') investigation costs	–	5.7
Reorganisation costs – overhead reduction programme	–	14.1
	–	21.1
Other operating income:		
Profit on the sale of property	–	(9.2)
	–	(9.2)
Total exceptional items charged to operating profit	–	28.4
Share of profits of joint ventures:		
Loss on disposal of joint venture	–	1.5
	–	1.5
Total exceptional items before taxation	–	29.9

There were no exceptional items from continuing operations during the year ended 31 December 2016. Exceptional items in 2015 were as follows:

- costs related to the consolidation of Coats' Mexican operations from three sites to two were $3.3 million. The gain on disposal of the property in Mexico was $9.2 million thereby generating an overall positive contribution of $5.9 million;

NOTES TO THE FINANCIAL STATEMENTS
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- with the sale of EMEA Crafts in 2015, Coats undertook a review of elements of its cost base, including costs previously allocated to that business, to establish the appropriate cost structure for a smaller and less complex Group. Costs incurred on this overhead reduction programme in the year ended 31 December 2015 were $14.1 million;
- US environmental costs were $13.2 million which included a provision for the remedial work on the Lower Passaic River, New Jersey, USA (see note 28 for further details);
- the Group provided for an additional $5.7 million in relation to costs in connection with the UK Pensions Regulator ('tPR') investigations;
- a loss on disposal of $1.5 million was recognised on the sale of Coats' share in a Philippines joint venture; and
- other exceptional costs of $1.3 million related to the capital incentive plan.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, quantitative as well as qualitative factors such as frequency or predictability of occurrence are considered.

Acquisition related items
Acquisition related items are set out below:

Year ended 31 December	2016 US$m	2015 US$m
Acquisition related items:		
Administrative expenses:		
Acquisition transaction costs	**0.9**	–
Contingent consideration linked to employment	**2.4**	–
Amortisation of acquired intangibles	**1.3**	–
Total acquisition related items before taxation	**4.6**	–

5 Profit before taxation from continuing operations

Year ended 31 December	2016 US$m	Restated 2015 US$m
Profit before taxation is stated after charging/(crediting):		
Amortisation of intangible assets	**10.1**	9.0
Depreciation of property, plant and equipment	**31.9**	34.5
Fees charged by Deloitte LLP		
Group audit fees:		
– Fees payable for the audit of the Company's annual accounts	**0.4**	0.3
– Fees payable for the audit of the Company's subsidiaries	**1.8**	1.8
Other Deloitte services:		
– Taxation services	**0.4**	0.4
– Other services	**0.2**	0.1
Total fees charged by Deloitte LLP	**2.8**	2.6
Operating lease rentals:		
– Plant and equipment	**4.9**	4.8
– Other	**11.3**	11.8
Research and development expenditure	**1.6**	2.1
Bad and doubtful debts	**2.3**	1.6
Net foreign exchange losses	**4.1**	7.1
Rental income from land and buildings	**(0.5)**	(0.8)
Inventory as a material component of cost of sales	**514.8**	532.6
Inventory write-downs to net realisable value	**1.5**	0.8

NOTES TO THE FINANCIAL STATEMENTS
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6 Investment income

Year ended 31 December	2016 US$m	2015 US$m
Interest receivable on Parent Group cash[1]	**2.2**	4.9
Other interest receivable and similar income	**1.6**	4.9
Income from other investments	**0.5**	0.7
	4.3	10.5

1 Cash relating to the realisation of investments previously held by Coats Group plc.

7 Finance costs

Year ended 31 December	2016 US$m	2015 US$m
Interest on bank and other borrowings	**14.4**	16.8
Net interest on pension scheme assets and liabilities	**13.6**	17.1
Foreign exchange losses on Parent Group cash[1]	**–**	3.2
Other finance costs including unrealised gains and losses on foreign exchange contracts	**7.9**	4.6
	35.9	41.7

1 Cash relating to the realisation of investments previously held by Coats Group plc.

8 Staff costs
The average monthly number of employees was:

Year ended 31 December	2016 Number	Restated 2015 Number
Continuing operations:		
Direct	**12,171**	12,408
Indirect	**2,353**	2,267
Other staff	**4,522**	4,614
	19,046	19,289
Discontinued operations:	**58**	709
Total number of employees	**19,104**	19,998
Comprising:		
UK	**220**	232
Overseas	**18,884**	19,766
	19,104	19,998
The total numbers employed at the end of the year were:		
UK	**163**	194
Overseas	**18,927**	18,776
	19,090	18,970

NOTES TO THE FINANCIAL STATEMENTS
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Year ended 31 December	2016 US$m	Restated 2015 US$m
Their aggregate remuneration comprised (including directors):		
Continuing operations:		
Wages and salaries	**300.7**	297.4
Social security costs	**29.8**	27.8
Other pension costs (note 10)	**12.0**	14.7
	342.5	339.9
Discontinued operations	**2.2**	15.6
	344.7	355.5

9 Tax on profit from continuing operations

Year ended 31 December	2016 US$m	2015 US$m
UK Corporation tax at 20% (2015: 20.25%)	**–**	–
Overseas tax charge	**(59.6)**	(52.6)
Deferred tax credit	**12.8**	8.9
Total tax charge	**(46.8)**	(43.7)

NOTES TO THE FINANCIAL STATEMENTS
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The tax charge for the year can be reconciled as follows:

Year ended 31 December	2016 Underlying US$m	2016 Exceptional and acquisition related items US$m	2016 Other adjustments[1] US$	2016 Total US$m	Restated 2015 Underlying US$m	Restated 2015 Exceptional and acquisition related items US$m	Restated 2015 Other adjustments[1] US$m	Restated 2015 Total US$m
Profit/(loss) before tax	**140.7**	**(4.6)**	**(13.6)**	**122.5**	130.5	(29.9)	(20.3)	80.3
Expected tax charge/(credit) at the UK statutory rate of 20% (2015: 20.25%)	**28.1**	**(0.9)**	**(2.7)**	**24.5**	26.4	(6.1)	(4.1)	16.2
Differences between overseas and UK taxation rate	**7.3**	**(0.1)**	**(0.1)**	**7.1**	8.4	(0.7)	–	7.7
Non-deductible expenses	**3.7**	**0.4**	**0.8**	**4.9**	6.1	0.4	0.7	7.2
Non-taxable income	**(0.3)**	**–**	**–**	**(0.3)**	(0.6)	–	–	(0.6)
Local tax incentives	**(2.6)**	**–**	**–**	**(2.6)**	(1.1)	–	–	(1.1)
Utilisation of unrecognised losses	**(3.4)**	**–**	**–**	**(3.4)**	(3.7)	–	–	(3.7)
Recognition of previously unrecognised deferred tax assets	**(5.5)**	**0.2**	**–**	**(5.3)**	(1.7)	–	–	(1.7)
Potential deferred tax assets not recognised	**11.9**	**–**	**2.0**	**13.9**	10.9	3.9	3.6	18.4
Impact of changes in tax rates	**0.3**	**–**	**–**	**0.3**	0.4	–	–	0.4
Prior year adjustments	**(2.9)**	**–**	**–**	**(2.9)**	(3.0)	–	–	(3.0)
Withholding tax on remittances (net of double tax credits) and other taxes not based on profits	**10.6**	**–**	**–**	**10.6**	3.9	–	–	3.9
Income tax expense/(credit)	**47.2**	**(0.4)**	**–**	**46.8**	46.0	(2.5)	0.2	43.7
Effective tax rate	**33.5%**	**8.7%**	**0.0%**	**38.2%**	35.2%	8.4%	(1.0%)	54.4%

1 Other adjustments consist of net interest on pension scheme assets and liabilities of $13.6 million (2015: $17.1 million) and foreign exchange losses arising on cash relating to the realisation of investments previously held by Coats Group plc of $Nil (2015: $3.2 million).

The increase in withholding taxes from $3.9 million in 2015 to $10.6 million in 2016 arises due to a partial release of the provision for withholding taxes on unremitted earnings in 2015, where the provision was restricted to the lower of available cash or distributable reserves. The withholding taxes income statement charge in 2016 is at the level that the Group expects to continue to incur in the medium term.

The Group's underlying effective tax rate is higher than the blended rate of the countries we operate in primarily due to the impact of unrelieved tax losses in countries where we are not currently able to recognise deferred tax assets in respect of those losses and the impact of withholding taxes on the repatriation of earnings and royalties to the UK.

The UK Government is intending to enact, with effect from 1 April 2017, legislation which changes the way brought forward trading losses can be utilised and how the potential restriction on corporate interest deductibility is calculated. These changes are not expected to have any significant impact on the Group's underlying effective tax rate in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS
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10 Retirement and other post-employment benefit arrangements

a) Pension and other post-employment costs

Pension and other post-employment costs for the year were (continuing and discontinued operations):

			2016		2015
Year ended 31 December		US$m	US$m	US$m	US$m
Defined contribution schemes			**3.4**		2.2
Defined benefit schemes –	Coats UK funded	**1.8**		4.4	
	Coats US funded	**3.4**		3.8	
	Staveley	**–**		–	
	Brunel	**–**		–	
	Other funded and unfunded	**3.4**		4.6	
			8.6		12.8
Administrative expenses for defined benefit schemes			**8.7**		13.3
			20.7		28.3

b) Defined contribution schemes

The Group operates a number of defined contribution plans around the world to provide pension benefits. The total cost relating to discontinued operations is $Nil million (2015: $0.1 million).

c) Defined benefit schemes

The Group has three UK defined benefit schemes, namely the Brunel Holdings Pension Scheme ('Brunel'), the Staveley Industries Retirement Benefits Scheme ('Staveley') and the Coats Pension Plan ('Coats UK') which offer both pensions in retirement and death benefits to members. During the period participating employees in the Coats UK Plan were accruing benefits based on their average salary, however, the Plan was closed to future accrual from 1 July 2016 with the participating employees moving to a defined contribution scheme. The Staveley and Brunel plans had no active members during the period.

The UK defined benefit schemes are administered by trustees and assets held in funds that are legally separated from the Group. The trustee boards of the schemes are composed of representatives of both employers and scheme members together with independent trustees. The trustee boards are required by law and the scheme's rules to act in the interest of the scheme's members and other stakeholders in the scheme (for example the Group). The trustee boards are responsible for setting each scheme's investment policy following consultation with the Group.

In addition, the Group has the Coats North America Pension Plan ('Coats US') which is a defined benefit scheme the assets of which are held in funds that are legally separated from the Group.

Finally, the Group also operates various other pension and other post-retirement arrangements around the globe (most significantly in Germany).

The following disclosures do not include information in respect of schemes operated by joint ventures.

The Group is exposed to actuarial risks including:

Interest rate risk – the present value of the defined benefit plan liabilities is calculated using a discount rate determined by reference to high quality corporate bond yields. A decrease in bond yield rates will increase defined benefit obligations;

Longevity risk – the present value of the defined benefit plan liability is calculated by reference to the best estimate of member life expectancies. An increase in life expectancy will increase liabilities;

Inflation – the present value of the defined benefit liabilities are calculated by reference to assumed future inflation rates. An increase in inflation rates will increase defined benefit obligations; and

Salary risk – certain of the Group's employee benefits are linked to salary and, hence, a faster than assumed increase in salaries may adversely impact on the defined benefit liabilities. However, this is not a significant risk to the Group.

Pension costs in respect of these plans are assessed in accordance with the advice of independent, professionally qualified actuaries.

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes, updated to take account of the valuations of assets and liabilities as at 31 December 2016. For the principal schemes, the date of the most recent actuarial valuations at the year end were 1 April 2012 for the Coats UK scheme, 31 December 2015 for the Coats US scheme, 31 December 2013 for the Staveley scheme and 31 March 2013 for the Brunel scheme.

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Principal assumptions at 31 December 2016	Coats UK %	Coats US %	Staveley %	Brunel %	Other %
Rate of increase in salaries	**–**	**3.0**	**–**	**–**	**3.6**
Rate of increase for pensions in payment	**3.2**	**–**	**Various**	**Various**	**2.7**
Discount rate	**2.5**	**4.2**	**2.5**	**2.5**	**3.8**
Inflation assumption	**3.3**	**2.5**	**3.3**	**3.3**	**2.7**

Principal assumptions at 31 December 2015	Coats UK %	Coats US %	Staveley %	Brunel %	Other %
Rate of increase in salaries	4.0	4.0	–	–	3.8
Rate of increase for pensions in payment	2.9	–	Various	Various	2.8
Discount rate	3.6	4.3	3.6	3.6	4.0
Inflation assumption	3.0	2.5	3.0	3.0	2.7

Amounts recognised in income in respect of these defined benefit schemes are as follows (both continuing and discontinued operations):

For the year ended 31 December 2016	Coats UK US$m	Coats US US$m	Staveley US$m	Brunel US$m	Other US$m	Group US$m
Current service cost	**(1.8)**	**(3.4)**	**–**	**–**	**(3.4)**	**(8.6)**
Administrative expenses	**(4.6)**	**(1.0)**	**(1.8)**	**(1.2)**	**(0.1)**	**(8.7)**
	(6.4)	**(4.4)**	**(1.8)**	**(1.2)**	**(3.5)**	**(17.3)**
Interest on defined benefit obligations – unwinding of discount	**(77.1)**	**(6.0)**	**(10.8)**	**(7.5)**	**(4.8)**	**(106.2)**
Interest income on pension scheme assets	**68.6**	**8.7**	**8.9**	**5.3**	**1.6**	**93.1**
Effect of asset cap	**–**	**(0.2)**	**–**	**–**	**(0.3)**	**(0.5)**
	(8.5)	**2.5**	**(1.9)**	**(2.2)**	**(3.5)**	**(13.6)**

For the year ended 31 December 2015	Coats UK US$m	Coats US US$m	Staveley US$m	Brunel US$m	Other US$m	Group US$m
Current service cost	(4.4)	(3.8)	–	–	(4.6)	(12.8)
Administrative expenses	(7.9)	(1.0)	(2.1)	(2.2)	(0.1)	(13.3)
	(12.3)	(4.8)	(2.1)	(2.2)	(4.7)	(26.1)
Interest on defined benefit obligations – unwinding of discount	(86.7)	(6.0)	(11.9)	(8.4)	(4.5)	(117.5)
Interest income on pension scheme assets	76.0	8.9	9.0	5.6	2.0	101.5
Effect of asset cap	–	(0.8)	–	–	(0.4)	(1.2)
	(10.7)	2.1	(2.9)	(2.8)	(2.9)	(17.2)

Included in the table above are amounts that have been reclassified to discontinued operations following the disposal of the EMEA Crafts business. Total amounts reclassified included service cost of $Nil million (2015: $0.2 million) and net interest expense of $Nil million (2015: $0.1 million). No administrative expenses are included in discontinued operations (2015: $Nil). In 2015 liabilities of $9.7 million were extinguished and assets of $0.4 million were transferred as a result of the disposal.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The amounts included in the statement of financial position arising from the Group's defined benefit arrangements are as follows:

For the year ended 31 December 2016	Coats UK US$m	Coats US US$m	Staveley US$m	Brunel US$m	Other US$m	Total US$m
Cash and cash equivalents	**27.3**	**2.4**	**11.7**	**12.6**	**0.1**	**54.1**
Equity instruments:						
US	–	**42.2**	–	–	**1.3**	**43.5**
UK	**80.8**	**3.5**	–	**43.0**	–	**127.3**
Eurozone	–	**7.0**	–	–	–	**7.0**
Other regions	**571.4**	**21.1**	**53.2**	–	**8.4**	**654.1**
Debt instruments:						
Corporate bonds	**752.1**	**108.5**	**191.0**	**44.4**	**6.2**	**1,102.2**
Government/sovereign instruments	**321.4**	**33.1**	**17.0**	**32.6**	–	**404.1**
Real estate	**156.3**	–	–	–	**0.4**	**156.7**
Derivatives:						
Inflation swap	**(25.5)**	–	–	**(2.2)**	–	**(27.7)**
Assets held by insurance company:						
Insurance contracts	**2.7**	**0.5**	**0.9**	**0.7**	**1.3**	**6.1**
Diversified investment fund	–	–	–	**26.5**	**7.2**	**33.7**
Other	–	**(3.0)**	–	–	**0.5**	**(2.5)**
Total market value of assets	**1,886.5**	**215.3**	**273.8**	**157.6**	**25.4**	**2,558.6**
Actuarial value of scheme liabilities	**(2,353.0)**	**(146.2)**	**(318.6)**	**(222.1)**	**(129.1)**	**(3,169.0)**
Gross net (liability)/asset in the scheme	**(466.5)**	**69.1**	**(44.8)**	**(64.5)**	**(103.7)**	**(610.4)**
Adjustment due to surplus cap	–	**(13.1)**	–	–	**(3.2)**	**(16.3)**
Recoverable net (liability)/asset in the scheme	**(466.5)**	**56.0**	**(44.8)**	**(64.5)**	**(106.9)**	**(626.7)**

This amount is presented in the statement of financial position as follows:

Non-current assets	
Funded	**50.8**
Current assets	
Funded	**6.7**
Current liabilities	
Funded	**(309.6)**
Unfunded	**(6.2)**
Non-current liabilities	
Funded	**(272.0)**
Unfunded	**(96.4)**
	(626.7)

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For the year ended 31 December 2015	Coats UK US$m	Coats US US$m	Staveley US$m	Brunel US$m	Other US$m	Total US$m
Cash and cash equivalents	46.8	3.8	2.9	2.3	2.2	58.0
Equity instruments:						
US	–	37.2	–	–	1.9	39.1
UK	85.7	4.2	–	44.6	–	134.5
Eurozone	–	7.5	–	–	–	7.5
Other regions	646.3	18.1	55.5	–	6.1	726.0
Debt instruments:						
Corporate bonds	1,172.2	111.7	159.7	48.0	8.2	1,499.8
Government/sovereign instruments	59.4	27.8	33.3	34.0	2.6	157.1
Real estate	183.9	–	–	–	0.1	184.0
Derivatives:						
Inflation swap	(58.6)	–	–	–	–	(58.6)
Assets held by insurance company:						
Insurance contracts	2.8	0.5	0.9	0.7	1.3	6.2
Diversified investment fund	–	–	–	32.3	–	32.3
Other	–	1.3	–	–	0.1	1.4
Total market value of assets	2,138.5	212.1	252.3	161.9	22.5	2,787.3
Actuarial value of scheme liabilities	(2,402.5)	(149.3)	(339.3)	(233.4)	(124.6)	(3,249.1)
Gross net (liability)/asset in the scheme	(264.0)	62.8	(87.0)	(71.5)	(102.1)	(461.8)
Adjustment due to surplus cap	–	(5.0)	–	–	(2.5)	(7.5)
Recoverable net (liability)/asset in the scheme	(264.0)	57.8	(87.0)	(71.5)	(104.6)	(469.3)

This amount is presented in the statement of financial position as follows:

Non-current assets	
Funded	52.5
Current assets	
Funded	6.6
Current liabilities	
Funded	(33.9)
Unfunded	(6.2)
Non-current liabilities	
Funded	(394.1)
Unfunded	(94.2)
	(469.3)

Included in the tables above are $177.0 million (2015: $185.8 million) of equity instruments, $251.6 million (2015: $234.1 million) of corporate bonds, $41.7 million (2015: $81.9 million) of government/sovereign instruments, derivative liabilities of $53.2 million (2015: $58.6 million), $26.5 million of diversified investment funds (2015: $32.3 million), $6.1 million (2015: $6.2 million) of insurance contracts and $3.6 million of other liabilities (2015: $0.7 million assets) without a quoted price in an active market. All other assets have a quoted price in an active market.

The UK funded schemes each operate an investment policy specific to the scheme. However these strategies all adopt a similar approach whereby a portion of the fund is invested in assets (Bonds) that broadly match movements in the value of the scheme's liabilities and a portion in assets that are anticipated to deliver a return in excess of the change in value of the liabilities. To this extent the schemes partially hedge the interest rate and inflation risks. The funds are diversified by asset class, at individual securities level; and by investment managers. To the extent that any assets are not Sterling denominated the schemes hedge a portion of this currency exposure back to Sterling.

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In addition the scheme's investment policies recognise the need to generate cashflows to meet members' benefits as they fall due.

The US scheme is fully funded and has a significant proportion of fixed income. The fixed income is invested directly to protect the funded status of the scheme. Trustees work with fixed income managers to consider the liabilities (including key period durations, credit spread duration and convexity) and have created a custom fix income benchmark to match the liabilities and protect the funded status.

The recoverable surplus on the US scheme has been recognised in line with the benefit from contribution holidays, plus annual refunds expected from the scheme to fund the US post-retirement medical scheme in accordance with relevant US legislation.

For the UK schemes, which are all in IAS 19 deficit at 31 December 2016, committed contributions to the plans at 31 December 2016 would not put the plans in an IAS 19 surplus position and therefore no adjustments are required in respect of minimum funding requirements. This position will be kept under review.

The Coats UK and US schemes as well as the Staveley and Brunel schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2016, $102.6 million (2015: $100.4 million) related to wholly unfunded arrangements.

Year ended 31 December	2016 US$m	2015 US$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	**(3,249.1)**	(3,679.1)
Current service cost	**(8.6)**	(12.8)
Interest on defined benefit obligations – unwinding of discount	**(106.2)**	(117.5)
Actuarial (losses)/gains on obligations	**(522.1)**	132.0
Liabilities extinguished on disposal of business	**–**	9.6
Liabilities extinguished on settlement	**–**	2.6
Contributions from members	**(0.4)**	(0.7)
Benefits paid	**190.1**	232.0
Exchange difference	**527.3**	184.8
At 31 December	**(3,169.0)**	(3,249.1)
Movements in the fair value of scheme assets were as follows:		
At 1 January	**2,787.3**	3,120.6
Interest income on scheme assets	**93.1**	101.5
Remeasurement on assets (excluding interest income)	**205.3**	(82.0)
Assets distributed on disposal of business	**–**	(0.4)
Assets distributed on settlement	**–**	(2.6)
Contributions from members	**0.4**	0.7
Contribution from sponsoring companies	**104.9**	45.6
Benefits paid	**(190.1)**	(232.0)
Administrative expenses paid from plan assets	**(8.5)**	(11.8)
Exchange difference	**(433.8)**	(152.3)
At 31 December	**2,558.6**	2,787.3
Actuarial gains and losses were as follows:		
Effect of changes in demographic assumptions	**(5.0)**	(5.5)
Effect of changes in financial assumptions	**(567.8)**	120.4
Effect of experience adjustments	**50.7**	17.1
Remeasurement on assets (excluding interest income)	**205.3**	(82.0)
Adjustment due to surplus cap	**(8.0)**	17.2
Included in the statement of comprehensive income	**(324.8)**	67.2

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For the principal schemes, the assumed life expectancy on retirement is:

Year ended 31 December	2016 Coats UK Years	2016 Coats US Years	2016 Staveley Years	2016 Brunel Years	2015 Coats UK Years	2015 Coats US Years	2015 Staveley Years	2015 Brunel Years
Retiring today at age 60:								
Males	**25.8**	**26.2**	**25.5**	**26.2**	26.6	26.1	25.4	26.1
Females	**27.8**	**28.6**	**28.7**	**28.8**	28.6	28.5	28.5	28.7
Retiring in 20 years at age 60:								
Males	**27.7**	**28.0**	**27.4**	**28.1**	28.5	27.9	27.3	28.0
Females	**29.6**	**30.4**	**30.7**	**30.9**	30.6	30.3	30.6	30.8

Sensitivities regarding the discount rate, inflation (which also impacts the rate of increases in salaries and rate of increase for pension in payments assumptions for the UK scheme) and mortality assumptions used to measure the liabilities of the principal schemes, along with the impact they would have on the scheme liabilities, are set out below. Interrelationships between assumptions might exist and the analysis below does not take the effect of these interrelationships into account:

Year ended 31 December	2016 + 0.25% US$m	2016 - 0.25% US$m	2015 + 0.25% US$m	2015 - 0.25% US$m
Coats UK discount rate	**(83.5)**	**86.8**	(88.3)	91.6
Coats US discount rate	**(3.2)**	**3.3**	(3.3)	3.4
Staveley discount rate	**(9.4)**	**9.7**	(10.4)	11.7
Brunel discount rate	**(6.2)**	**6.4**	(7.7)	7.0
Coats UK inflation rate	**73.6**	**(71.5)**	76.9	(76.5)
Coats US inflation rate	**0.1**	**(0.1)**	0.1	0.1
Staveley inflation rate	**8.4**	**(8.2)**	10.2	(9.0)
Brunel inflation rate	**3.1**	**(3.1)**	2.6	(3.3)

If members of the Coats UK scheme live one year longer the scheme liabilities will increase by $65.8 million (2015: $72.5 million). If members of the Coats US scheme live one year longer scheme liabilities will increase by $3.8 million (2015: $3.8 million), however, there would be no overall impact on the recoverable surplus. If members of the Staveley and Brunel schemes live one year longer scheme liabilities will increase by $12.3 million (2015: $11.7 million) and $6.8 million (2015: $7.0 million) respectively.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Year ended 31 December	2016 Valuation trend + 1% US$m	2016 Valuation trend - 1% US$m	2015 Valuation trend + 1% US$m	2015 Valuation trend - 1% US$m
Sensitivity of medical schemes to medical cost trend rate assumptions:				
Effect on total service cost and interest cost components of other schemes	**0.1**	**(0.1)**	(0.1)	(0.1)
Effect on defined benefit obligation of other schemes	**2.4**	**(2.1)**	2.4	(2.1)

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At the year end the position of the triennial actuarial valuations of the UK defined benefit pension schemes was as follows:

The triennial valuation of the Coats UK pension plan as at April 2012 showed an actuarial deficit of £215 million, which equated to a funding level of 87%. A fourteen year recovery plan was agreed with the trustees, under which contributions of £14 million per annum were payable from November 2013 plus £2 million per annum relating to future service (future service accrual ceased with effect from 1 July 2016).

The last triennial valuation for Staveley was undertaken as at December 2013 and was finalised during 2016, resulting in an actuarial funding deficit of £85 million, which equated to a funding level of 69%. A recovery plan was agreed, comprised of an initial payment of £34 million followed by monthly payments commencing from April 2016 amounting to £4.4 million per annum until 31 March 2025.

The last triennial valuation of the Brunel scheme, as at March 2013, was completed in 2015 resulting in an actuarial funding deficit of £94 million, which equated to a funding level of 56%. A recovery plan was agreed, comprised of an initial payment of £5.5 million followed by quarterly payments commencing from January 2016 amounting to £5.5 million per annum for nine years. A lump sum payment of £15 million was paid to the Brunel scheme in September 2016 with the contributions subsequently reducing to £3.7 million per annum.

Following the settlement with the trustees of the Coats UK pension plan and the Brunel scheme in February 2017 (see note 36) triennial valuations as at 1 April 2015 and 31 March 2015 respectively were agreed.

The triennial valuation of the Coats UK pension plan as at 1 April 2015 showed an actuarial deficit of £405 million, which equated to a funding level of 79%. A recovery plan has been agreed with the trustees comprising contributions from 1 April 2015 up to settlement as described above, a one off payment of £200 million in February 2017 and contributions of £8.2 million per annum payable from February 2017 until 30 June 2028.

The triennial valuation of the Brunel scheme as at 31 March 2015 showed an actuarial deficit of £80 million, which equated to a funding level of 59%. A recovery plan has been agreed with the trustees comprising contributions from 1 April 2015 up to settlement as described above, a one off payment of £34.5 million in February 2017 and contributions of £1.7 million per annum payable with effect from January 2017 until 31 March 2028.

The Group will also fund the administrative expenses of both these schemes; and the next triennial valuations are both due as at 31 March 2018.

The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2017 financial year is $315.1 million, including settlement payments to the Coats UK pension plan and Brunel scheme as set out above.

The weighted average duration of benefit obligations is 15 years (2015: 15 years) for the Coats UK scheme and 9 years (2015: 9 years) for the Coats US scheme, 13 years (2015: 13 years) for the Staveley scheme and 12 years (2015: 12 years) for the Brunel scheme.

11 Earnings per ordinary share

The calculation of basic earnings per ordinary share from continuing operations is based on the profit from continuing operations attributable to equity shareholders and the weighted average number of ordinary shares in issue during the year, excluding shares held by the Employee Benefit Trust but including shares under the Deferred Annual Bonus Plan which are not contingently issuable.

The calculation of basic earnings/(loss) per ordinary share from continuing and discontinued operations is based on the profit/(loss) attributable to equity shareholders. The weighted average number of Ordinary Shares used for the calculation of basic earnings/(loss) per ordinary share from continuing and discontinued operations is the same as that used for basic earnings per ordinary share from continuing operations.

For diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

Basic and diluted earnings per share has been calculated as follows:

	2016 US$m	2015 US$m
Profit from continuing operations attributable to equity shareholders	**63.8**	25.4
Profit/(loss) from continuing and discontinued operations attributable to equity shareholders	**59.3**	(50.6)

	2016 Number of shares m	2015 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,386.6**	1,400.8
Adjustment for share options and LTIP awards	**20.5**	–
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,407.1**	1,400.8

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Year ended 31 December	2016 cents	2015 cents
Continuing operations:		
Basic earnings per ordinary share	**4.60**	1.81
Diluted earnings per ordinary share	**4.53**	1.81
Continuing and discontinued operations:		
Basic earnings/(loss) per ordinary share	**4.28**	(3.61)
Diluted earnings/(loss) per ordinary share	**4.22**	(3.61)

12 Dividends

No dividend in respect of the year ended 31 December 2016 was paid to Coats Group plc shareholders during the year (2015: $Nil). The proposed final dividend of 0.84 cents per ordinary share for the year ended 31 December 2016 is not recognised as a liability in the consolidated financial statements and, subject to shareholder approval, will be paid on 30 May 2017 to shareholders on the register at the close of business on 5 May 2017.

13 Intangible Assets

		Acquired intangibles					
Cost	Goodwill US$m	Brands & trade names US$m	Technology US$m	Customer relationships US$m	Total acquired US$m	Computer software US$m	Total US$m
At 1 January 2015	2.2	245.5	–	–	245.5	86.0	333.7
Currency translation differences	(0.1)	–	–	(0.1)	(0.1)	(5.0)	(5.2)
Acquisition of subsidiaries	3.4	1.1	0.4	1.0	2.5	–	5.9
Additions	–	–	–	–	–	9.3	9.3
Assets of business sold	–	(3.8)	–	–	(3.8)	(9.2)	(13.0)
Disposals	–	–	–	–	–	(4.0)	(4.0)
At 31 December 2015	**5.5**	**242.8**	**0.4**	**0.9**	**244.1**	**77.1**	**326.7**
Currency translation differences	**(2.3)**	**(0.4)**	**(1.2)**	**(0.8)**	**(2.4)**	**(0.4)**	**(5.1)**
Acquisition of subsidiaries	**18.1**	**1.4**	**12.5**	**6.1**	**20.0**	**–**	**38.1**
Additions	**–**	**–**	**–**	**–**	**–**	**8.7**	**8.7**
Disposals	**–**	**–**	**–**	**–**	**–**	**(4.7)**	**(4.7)**
At 31 December 2016	**21.3**	**243.8**	**11.7**	**6.2**	**261.7**	**80.7**	**363.7**
Cumulative amounts charged							
At 1 January 2015	–	3.8	–	–	3.8	73.2	77.0
Currency translation differences	–	–	–	–	–	(4.2)	(4.2)
Amortisation charge for the year	–	0.1	–	0.1	0.2	8.8	9.0
Assets of business sold	–	(3.8)	–	–	(3.8)	(9.2)	(13.0)
Disposals	–	–	–	–	–	(3.3)	(3.3)
At 31 December 2015	**–**	**0.1**	**–**	**0.1**	**0.2**	**65.3**	**65.5**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Amortisation charge for the year	**–**	**0.1**	**0.9**	**0.3**	**1.3**	**8.8**	**10.1**
Disposals	**–**	**–**	**–**	**–**	**–**	**(3.1)**	**(3.1)**
At 31 December 2016	**–**	**0.2**	**0.9**	**0.4**	**1.5**	**70.4**	**71.9**
Net book value at 31 December 2016	**21.3**	**243.6**	**10.8**	**5.8**	**260.2**	**10.3**	**291.8**
Net book value at 31 December 2015	5.5	242.7	0.4	0.8	243.9	11.8	261.2

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The carrying value of Coats brands at 31 December 2016 and 31 December 2015 is $239.6 million. There is no foreseeable limit to the net cash inflows from royalties, which are generated from continued sales of thread resulting from the Coats brands, and those brands are therefore assessed as having indefinite useful lives. The recoverable amount of these brands has been estimated using the relief from royalty method to calculate the fair value and is re-assessed annually by reference to the discounted cash flow arising from the royalties generated by those brands. The valuation has been based on the latest budget approved by the Board covering the period to 31 December 2017, applying a pre-tax discount rate of 10% and a terminal value including no growth. Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ('CGUs') that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

31 December	2016 US$m	2015 US$m
Gotex	**12.0**	–
Fast React Systems	**4.0**	–
GSD	**3.1**	3.3
Other	**2.2**	2.2
	21.3	5.5

The carrying value of the goodwill allocated to the CGUs has been tested for impairment during the year by comparing the carrying value of the CGU to their value in use. The value in use calculations were based on projected cash flows, derived from the latest budgets approved by the Board, discounted at CGU specific, risk adjusted, discount rates to calculate the net present value.

The calculation of 'value in use' is most sensitive to the following assumptions:

- CGU specific operating assumptions that are reflected in the budget period for the financial year to December 2017;
- discount rates; and
- growth rates used to extrapolate risk adjusted cash flows beyond the budget period.

CGU specific operating assumptions are applicable to the budgeted cash flows for the year to December 2017 and relate to revenue forecasts, expected project outcomes and forecast operating margins. A short-term growth rate is applied to the December 2017 budget to derive the cash flows arising in 2018–2020 and a long term rate is applied to these values for the year to December 2021 and onwards.

The discount rate is based on estimations of the assumptions that market participants operating in similar sectors to Coats would make, using the Group's economic profile as a starting point and adjusting appropriately. Directors do not currently expect any significant change in the present base discount rate of 10%. The base discount rate has been adjusted for economic risks that are not already captured in the specific operating assumptions. This results in the impairment testing using a 12.5% pre-tax discount rate.

Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value of any of the above CGUs to materially exceed their recoverable amount.

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14 Property, plant and equipment

Cost	Land and buildings US$m	Plant and equipment US$m	Vehicles and office equipment US$m	Total US$m
At 1 January 2015	184.2	637.1	133.6	954.9
Currency translation differences	(14.0)	(51.8)	(9.0)	(74.8)
Additions	5.7	25.1	2.8	33.6
Transfer to non-current assets held for sale	(1.7)	–	–	(1.7)
Assets of business sold	(16.1)	(15.7)	(21.0)	(52.8)
Disposals	(4.7)	(17.6)	(7.9)	(30.2)
At 31 December 2015	**153.4**	**577.1**	**98.5**	**829.0**
Currency translation differences	**(3.8)**	**(10.5)**	**(0.5)**	**(14.8)**
Subsidiaries bought externally	**–**	**1.0**	**–**	**1.0**
Additions	**7.9**	**19.2**	**5.7**	**32.8**
Transfer to non-current assets held for sale	**(0.2)**	**–**	**–**	**(0.2)**
Disposals	**–**	**(12.7)**	**(5.4)**	**(18.1)**
At 31 December 2016	**157.3**	**574.1**	**98.3**	**829.7**
Cumulative amounts charged				
At 1 January 2015	100.5	448.7	107.5	656.7
Currency translation differences	(7.3)	(41.4)	(5.1)	(53.8)
Depreciation charge for the year	4.3	26.7	3.6	34.6
Assets of business sold	(16.1)	(15.1)	(21.0)	(52.2)
Disposals	(5.3)	(16.2)	(7.8)	(29.3)
At 31 December 2015	**76.1**	**402.7**	**77.2**	**556.0**
Currency translation differences	**(1.7)**	**(6.2)**	**(0.3)**	**(8.2)**
Depreciation charge for the year	**3.8**	**24.3**	**3.8**	**31.9**
Disposals	–	**(11.1)**	**(4.8)**	**(15.9)**
At 31 December 2016	**78.2**	**409.7**	**75.9**	**563.8**
Net book value at 31 December 2016	**79.1**	**164.4**	**22.4**	**265.9**
Net book value at 31 December 2015	77.3	174.4	21.3	273.0
Assets charged as security for borrowings:				
31 December 2016	–	**0.4**	–	**0.4**
31 December 2015	–	1.3	–	1.3

Analysis of net book value of land and buildings 31 December	2016 US$m	2015 US$m
Freehold	**64.3**	65.1
Leasehold:		
Over 50 years unexpired	**1.4**	1.2
Under 50 years unexpired	**13.4**	11.0
	79.1	77.3

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15 Non-current investments

31 December	2016 US$m	2015 US$m
Interests in joint ventures (see below)	**11.0**	10.8
Available for sale investments:		
Unlisted investments	**1.1**	1.5
	12.1	12.3

Available for sale investments included within current assets were $0.2 million at 31 December 2016 (2015: $0.2 million).

Interests in joint ventures	US$m
At 1 January 2016	10.8
Additions	0.4
Dividends receivable	(1.0)
Share of profit after tax	0.8
At 31 December 2016	**11.0**

31 December	2016 US$m	2015 US$m
Share of net assets on acquisition	**10.6**	10.6
Share of post-acquisition retained profits	**0.4**	0.2
Share of net assets	**11.0**	10.8

During the year ended 31 December 2015 the Group disposed of a joint venture in the Philippines for a consideration net of disposal costs of $1.1 million resulting in a loss on disposal of $1.5 million.

The following table provides summarised financial information on the Group's share of its joint ventures, relating to the period during which they were joint ventures, and excludes goodwill:

Year ended 31 December	2016 US$m	2015 US$m
Summarised income statement information:		
Revenue	**31.0**	37.0
Profit before tax	**0.2**	1.4
Taxation	**(0.4)**	(1.0)
(Loss)/profit after tax	**(0.2)**	0.4

31 December	2016 US$m	2015 US$m
Summarised balance sheet information:		
Non-current assets	**7.9**	7.7
Current assets	**13.0**	12.8
	20.9	20.5
Liabilities due within one year	**(15.1)**	(14.0)
Net assets	**5.8**	6.5

See note 28 for details of a guarantee provided by the Group in respect of the banking facilities of Australian Country Spinners Ltd, a joint venture.

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16 Deferred tax assets

31 December	2016 US$	2015 US$
Deferred tax assets	**18.1**	12.5

The Group's deferred tax assets are included within the analysis in note 23.

The movements in the Group's deferred tax asset during the year were as follows:

	2016 US$	2015 US$
At 1 January	**12.5**	15.3
Currency translation differences	**(1.3)**	(1.8)
Disposal of subsidiaries	**–**	(1.3)
Previously deferred tax liability	**–**	2.4
Transfer to current tax	**(2.4)**	(0.1)
Credited/(charged) to the income statement	**9.1**	(1.9)
Credited/(charged) to other comprehensive income and expense	**0.2**	(0.1)
At 31 December	**18.1**	12.5

17 Inventories

31 December	2016 US$	2015 US$
Raw materials and consumables	**75.7**	75.1
Work in progress	**40.4**	32.8
Finished goods and goods for resale	**89.7**	96.1
	205.8	204.0

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18 Trade and other receivables

31 December	2016 US$m	2015 US$m
Non-current assets:		
Trade receivables	**0.1**	0.1
Income tax assets	**1.2**	0.6
Other receivables	**14.5**	15.6
Derivative financial instruments	**0.3**	0.1
	16.1	16.4
Current assets:		
Trade receivables	**198.4**	209.4
Amounts due from joint ventures	**0.3**	0.3
Current income tax assets	**1.3**	3.7
Prepayments and accrued income	**6.7**	8.7
Derivative financial instruments	**3.3**	3.3
Other receivables	**38.4**	36.5
	248.4	261.9

The fair value of trade and other receivables is not materially different to the carrying value.

The average credit period taken on sale of goods is 51 days (2015: 54 days). Interest charged in respect of overdue trade receivables is immaterial.

Credit risk is minimised as the exposure is spread over a large number of customers. An allowance has been made for estimated irrecoverable amounts on trade receivables of $11.8 million (2015: $11.3 million). This allowance has been determined by reference to past default experience, and the movements in the allowance are analysed as follows:

	2016 US$m	2015 US$m
At 1 January	**11.3**	15.4
Currency translation differences	**(0.3)**	(1.6)
Charged to the income statement	**2.3**	1.7
Disposal of business	**–**	(1.6)
Amounts written off during the year	**(1.5)**	(2.6)
At 31 December	**11.8**	11.3

19 Derivative financial instruments – assets

Derivative financial instruments within non-current and current assets comprise:

31 December	2016 US$m	2015 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**3.1**	3.1
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	**0.5**	0.3
	3.6	3.4
Amounts shown within non-current assets	**0.3**	0.1
Amounts shown within current assets	**3.3**	3.3

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

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20 Trade and other payables

31 December	2016 US$m	2015 US$m
Amounts falling due within one year:		
Trade payables	**176.4**	191.6
Amounts owed to joint ventures	**11.5**	11.7
Other tax and social security payable	**7.8**	6.6
Other payables	**37.9**	40.2
Accruals and deferred income	**53.7**	51.8
Derivative financial instruments	**8.7**	4.3
Employee entitlements (excluding pensions)	**14.8**	14.5
	310.8	320.7
Amounts falling due after more than one year:		
Other payables	**14.6**	**11.2**
Employee entitlements (excluding pensions)	**1.2**	**1.0**
Derivative financial instruments	**–**	**0.2**
	15.8	**12.4**

The fair value of trade and other payables is not materially different to the carrying value.

Interest paid to suppliers in respect of overdue trade payables is immaterial.

21 Derivative financial instruments – liabilities
Derivative financial instruments within non-current and current liabilities comprise:

31 December	2016 US$m	2015 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**8.7**	4.2
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	**–**	0.3
	8.7	4.5
Amounts shown within non-current liabilities	**8.7**	0.2
Amounts shown within current liabilities	**–**	4.3

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

NOTES TO THE FINANCIAL STATEMENTS
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22 Borrowings

31 December	2016 US$m	2015 US$m
Bank overdrafts	**6.2**	18.5
Borrowings repayable within one year	**1.5**	1.7
Due within one year	**7.7**	20.2
Borrowings repayable between one and two years	**58.5**	0.6
Borrowings repayable between two and five years	**332.1**	388.5
Due after more than one year	**390.6**	389.1
Bank overdrafts	**6.2**	18.5
Bank borrowings	**392.1**	390.8
	398.3	409.3

At 31 December 2016, the Group's borrowings shown above comprised $394.6 million of secured borrowings (2015: $406.1 million) and $3.7 million of unsecured borrowings (2015: $3.2 million).

The currency and interest rate profile of the Group's borrowings is included in note 34 on page 140.

23 Deferred tax liabilities

	2016 US$m	2015 US$m
At 1 January	**33.0**	39.2
Currency translation differences	**(0.4)**	(1.0)
Acquisition of subsidiaries	**4.8**	–
Reclassified from deferred tax assets	**–**	2.4
Transfer to current tax	**(2.1)**	(0.1)
Credited to the income statement	**(3.7)**	(10.8)
Charged to the other comprehensive income and expense	**0.1**	3.3
At 31 December	**31.7**	33.0

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31 December	2016 Provided/ (recognised) US$m	2016 Unprovided/ (unrecognised) US$m	2015 Provided/ (recognised) US$m	2015 Unprovided/ (unrecognised) US$m
The Group's net deferred tax liabilities/(assets) are analysed as follows:				
Accelerated tax depreciation on tangible fixed assets	**14.7**	**(5.8)**	20.3	(5.3)
Other temporary differences	**(6.7)**	**(13.0)**	(11.6)	(10.1)
Revenue losses carried forward	**(12.6)**	**(258.3)**	(8.8)	(249.8)
Capital losses carried forward	**–**	**(242.5)**	–	(294.3)
Investment in subsidiaries	**10.6**	**4.1**	12.2	2.5
Brands	**40.7**	**–**	41.5	–
Revenue losses offset against brands	**–**	**–**	(41.5)	–
Retirement benefit obligations offset against brands	**(40.7)**	**–**	–	–
Retirement benefit obligations	**7.6**	**(43.9)**	8.4	(52.0)
	13.6	**(559.4)**	20.5	(609.0)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016	2015
Deferred tax assets (note 16)	**(18.1)**	(12.5)
Deferred tax liabilities	**31.7**	33.0
	13.6	20.5

At the year end, the Group had approximately $1.2 billion (2015: $1.3 billion) of unused gross income tax losses and approximately $1.4 billion (2015: $1.6 billion) of unused gross capital losses available for offset against future profits. A deferred tax asset of $12.6 million (2015: $50.3 million) has been recognised in respect of $45 million (2015: $260 million) of such income tax losses. Of these losses, Nil (2015: $230 million) have been recognised to offset the potential deferred tax liability recognised on the Group's brands. No deferred tax asset has been recognised in respect of the remaining losses due to lack of certainty regarding the availability of future taxable income. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

The Group's income tax losses can be analysed as follows:

	2016 US$m	2015 US$m
Expiring within 5 years	**30.8**	31.0
Expiring in more than 5 years	**7.2**	10.9
Available indefinitely	**1,188.1**	1,292.4
	1,226.1	1,334.3

At the period end, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $4.1 million (2015: $2.5 million). Deferred tax on distribution of these profits has not been provided on the grounds that the Group is able to control the timing of the reversal of the remaining temporary differences and it is probable that they will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS
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24 Provisions

31 December	2016 US$m	2015 US$m
Provisions are included as follows:		
Current liabilities	**17.1**	44.4
Non-current liabilities	**34.8**	35.8
	51.9	80.2

Provisions are analysed as follows:

31 December	2016 US$m	2015 US$m
Onerous leases	**4.8**	7.1
Other provisions	**47.1**	73.1
	51.9	80.2

	Onerous leases US$m	Other Provisions US$m	Total US$m
At 1 January 2016	**7.1**	**73.1**	**80.2**
Currency translation differences	**(1.1)**	**2.2**	**1.1**
Utilised in year	**(0.5)**	**(27.6)**	**(28.1)**
Credited to the income statement	**(0.7)**	**(0.6)**	**(1.3)**
At 31 December 2016	**4.8**	**47.1**	**51.9**

Provisions for onerous leases are held in respect of leasehold properties for which the Group has rent and other commitments in respect of properties which are vacant or sublet. The majority of head leases expire before 2020.

The currency profile of onerous leases is included in note 34 on page 140 and the maturity of onerous leases in included in note 34 on page 142.

Other provisions include the following:

- amounts set aside to cover certain legal and other regulatory claims, including in respect of the Lower Passaic River (see note 28 for further details), which are expected to be substantially utilised within the next ten years; and
- costs expected to be incurred in connection with the regulatory action by the UK Pensions Regulator in relation to the Coats UK Pension Plan and the Brunel and Staveley schemes, for the Company and the trustees of these schemes. As set out in note 36, subsequent to the year end the regulatory action by the UK Pensions Regulator in relation to the Coats UK Pension Plan and the Brunel scheme ceased.

NOTES TO THE FINANCIAL STATEMENTS
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25 Operating lease commitments

31 December	2016 US$m	2015 US$m
Outstanding commitments under non-cancellable operating leases:		
Payable within one year	**15.6**	15.3
Payable between one and five years	**25.0**	28.7
Payable after more than five years	**6.7**	9.6
	47.3	53.6

At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

31 December	2016 US$m	2015 US$m
Receivable within one year	**0.2**	0.5
Receivable between one and five years	**0.5**	0.6
Receivable after more than five years	**–**	0.1
	0.7	1.2

Operating leases relate principally to land and buildings and vehicles.

26 Share capital

	2016		2015	
31 December	Number	US$m	Number	US$m
Ordinary Shares of 5p each	**1,407,612,282**	**127.0**	1,407,612,282	127.0

The own shares reserve of $10.5 million at 31 December 2016 (2015: $7.6 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans.

The number of shares held by the Employee Benefit Trust at 31 December 2016 was 25,746,861 (2015: 17,625,636).

Options outstanding under the Group's 2002 share option scheme at 31 December 2016 were as set out below:

Share Option Scheme	Number	Date granted	Exercise price (pence per share)	Exercise period
2002 Share Option Scheme:				
Ordinary	12,105,351	09.03.07	56.5534	09.03.10 to 09.03.17
Ordinary	9,262,417	10.04.08	49.9961	10.04.11 to 10.04.18
Ordinary	2,831,333	30.06.09	25.9529	30.06.12 to 30.06.19

Options exercised during the year comprised 947,389 (2015: Nil) under the schemes operated by the Group, and 13,150,014 (2015: 28,679,974) options lapsed.

Details of share awards outstanding under the Group's LTIP and Deferred Bonus Plans are set out in note 35.

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27 Reserves and non-controlling interests

	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained loss US$m	Non-controlling interests US$m
At 1 January 2016	**11.6**	**(7.6)**	**(123.1)**	**85.2**	**250.5**	**(14.3)**	**(24.7)**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(13.4)**
Share based payments	**–**	**–**	**–**	**–**	**–**	**5.1**	**–**
Currency translation differences	**–**	**–**	**2.0**	**–**	**–**	**–**	**(0.7)**
Decreases in fair value of cash flow hedges	**–**	**–**		**–**	**(0.9)**	**–**	**–**
Transfers to income statement	**–**	**–**	**–**	**–**	**1.3**	**–**	**–**
Actuarial losses on employee benefits	**–**	**–**	**–**	**–**		**(324.8)**	**–**
Tax on actuarial gains and losses	**–**	**–**	**–**	**–**	**–**	**0.1**	**–**
Purchase of own shares	**–**	**(2.9)**	**–**	**–**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**59.3**	**11.9**
At December 2016	**11.6**	**(10.5)**	**(121.1)**	**85.2**	**250.9**	**(274.6)**	**22.5**

The table below shows financial information of non-wholly owned subsidiaries of the Group that have non-controlling interests:

	Profit allocated to non-controlling interests		Accumulated non-controllling interests	
	Year ended 31 December 2016 US$m	Year ended 31 December 2015 US$m	31 December 2016 US$m	31 December 2015 US$m
Asia	**10.0**	10.8	**20.1**	22.5
Rest of world	**1.9**	0.4	**2.4**	2.2
	11.9	11.2	**22.5**	24.7

The proportion of ownership interests and voting rights of non-wholly owned subsidiaries of the Group held by non-controlling interests is set out on pages 155 to 160.

NOTES TO THE FINANCIAL STATEMENTS
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28 Contingent liabilities and environmental matters

Guarantees

The Group has guaranteed the banking facilities of Australian Country Spinners Ltd, a joint venture, on a joint and several basis with the other shareholder. The Group's liability under that guarantee, which is limited to 50% of those facilities, amounts to $1.9 million (2015: $1.9 million).

The Group has guaranteed certain amounts that may become payable in respect of a former subsidiary in Australia. At 31 December 2016, the Group's liability under these guarantees amounted to $0.1 million (2015: $1.2 million). At the time of the sale of that former subsidiary, in 2013 the Group was paid this amount which is held in an interest-bearing bank account on trust for the former subsidiary. On expiry of these guarantees any unutilised balance, together with any interest received on that account, will be repaid to the former subsidiary. This liability is fully accrued in these financial statements.

Pensions

As set out in note 36, the Trustees of the Staveley Industries Retirement Benefits Scheme ('Staveley') have not to date accepted the Company's proposal regarding that scheme and currently the UK Pension Regulator's investigation in connection with that scheme remains open. The outcome of the UK Pension Regulator's action in relation to the Staveley scheme remains uncertain, but may result in changes to the Company's proposal and current deficit recovery plan for the scheme.

Environmental matters

As noted in previous reports, the US Environmental Protection Agency ('EPA') has notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17 mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. Approximately 52 PRPs are currently members of a cooperating parties group ('CPG') of companies, formed to fund and conduct a remedial investigation and feasibility study of the area. CC joined the CPG in 2011.

CC has analysed its predecessor's operating history prior to 1950, when it left the LPR, and has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process. CC also believes that there are many parties that will participate in the LPR's remediation that are not currently funding the study of the river, including those that are the most responsible for its contamination.

In April 2014, the EPA released a Focused Feasibility Study and Proposed Plan (FFS) for the lower 8 miles of the LPR. The FFS analyses a series of remedial alternatives.

In March 2015, CC and other companies submitted a petition to EPA, asserting that they are de minimis parties and seeking a meeting to commence settlement discussions.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR pursuant to the FFS at an estimated cost of $1.38 billion on a net present value basis. The EPA's Record of Decision did not include a remedial decision for the upper 9 miles of the LPR. The EPA may consider the CPG's proposed remedial alternative for the upper 9 miles, or it may select a different remedy. Discussions with EPA regarding the nature and timing of such a decision are ongoing.

EPA has entered into an administrative order on consent ('AOC') with Occidental Chemical Corporation ('OCC'), which has been identified as being responsible for the most significant contamination in the river, concerning the design of the selected remedy for the lower eight miles of the LPR. Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC, filed for bankruptcy protection in June 2016, but OCC is expected to pay its share of the remedial costs even if Maxus obtains some degree of protection in the bankruptcy proceeding, and objections have been filed opposing such protection. While the ultimate costs of the remedial design and the final remedy are expected to be shared among hundreds of parties, including many who are not currently in the CPG, the allocation of remedial costs among those parties has not yet been determined.

In 2015, a provision of $9.0 million was recorded for remediation costs for the entire 17 miles of the LPR. This provision was based on CC's estimate of its de minimis share of costs for EPA's selected remedy for the lower 8 miles of the LPR and the remedy proposed by the CPG for the upper 9 miles. A separate provision of $6.8 million was recorded for associated legal and professional costs in defence of CC's position. Both of these charges to the income statement were net of insurance reimbursements and were stated on a net present value basis. As at 31 December 2016, $3.4 million of this provision had been utilised. The process concerning the LPR continues to evolve and these estimates are subject to change based upon the scope of the remedy selected by EPA, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies. The total charge to the income statement, net of insurance reimbursements, for the year ended 31 December 2016 was $Nil (2015: $12.8 million).

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that it is a de minimis party, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. However, as this matter evolves, CC could record additional provisions and such provisions could increase materially based on further decisions by EPA, negotiations among the parties, and other future events.

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29 Capital commitments
As at 31 December 2016, the Group had commitments of $5.6 million in respect of contracts placed for future capital expenditure (2015: $2.0 million).

30 Notes to the consolidated cash flow statement
a) Reconciliation of operating profit to net cash inflow from operations

31 December	2016 US$m	Restated 2015 US$m
Operating profit	**153.3**	111.5
Depreciation	**31.9**	34.5
Amortisation of intangible assets	**8.8**	9.0
Reorganisation costs (see note 4)	**–**	17.4
Exceptional profit on sale of property (see note 4)	**–**	(9.2)
Other operating exceptional and acquisition related items (see note 4)	**4.6**	20.2
Pre-exceptional operating profit before depreciation and amortisation (EBITDA[1])	**198.6**	183.4
(Increase)/decrease in inventories	**(3.7)**	4.3
Decrease/(increase) in debtors	**5.9**	(11.9)
Decrease in creditors	**(5.7)**	(11.0)
Provision movements	**(113.3)**	(47.5)
Foreign exchange and other non-cash movements	**2.5**	3.2
Discontinued operations	**(4.9)**	(11.6)
Net cash inflow from operations	**79.4**	108.9

1 EBITDA is defined as pre-exceptional operating profit before depreciation and amortisation. Exceptional and acquisition related items are set out in note 4.

b) Investment income

31 December	2016 US$m	2015 US$m
Interest and other income	**3.0**	8.2
Dividends received from joint ventures	**1.0**	1.8
	4.0	10.0

c) Capital expenditure and financial investment

31 December	2016 US$m	Restated 2015 US$m
Acquisition of property, plant and equipment and intangible assets	**(40.1)**	(44.1)
Disposal of available-for-sale investments	**0.3**	0.1
Disposal of property, plant and equipment	**1.1**	12.9
Discontinued operations	**–**	(0.8)
	(38.7)	(31.9)

d) Acquisition and disposals

31 December	2016 US$m	2015 US$m
Acquisition of businesses	**(36.3)**	(5.5)
Investment in joint venture	**(0.4)**	–
Net receipt from sale of joint venture	**–**	1.1
Discontinued operations	**(3.7)**	(21.7)
	(40.4)	(26.1)

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e) Summary of net cash

31 December	2016 US$m	2015 US$m
Parent Group cash and cash equivalents[1]	**343.1**	504.6
Other group cash and cash equivalents	**133.4**	145.3
Total cash and cash equivalents	**476.5**	649.9
Bank overdrafts	**(6.2)**	(18.5)
Net cash and cash equivalents	**470.3**	631.4
Other borrowings	**(392.1)**	(390.8)
Total net cash	**78.2**	240.6

1 Cash relating to the realisation of investments previously held by Coats Group plc. Parent Group cash and cash equivalents is reserved for UK pension settlement. Following the settlement payments to the Coats UK pension plan and the Brunel Holdings pension scheme in February 2017 the remaining Parent Group cash and cash equivalents is reserved for the Staveley scheme settlement.

31 Acquisitions

In June 2016, the Group acquired 100% of the voting equity of Gotex S.A. ('Gotex'), a company based in Spain that designs, manufactures and trades a range of innovative, high performance industrial textiles to serve industries such as telecommunications (fibre optic cables), energy and oil and gas. Gotex is a market leader in coated fibreglass yarns with a proprietary technology that enables manufacturing at significantly higher speeds than conventional technology. This will complement Coats' aramid product range and strengthen Coats' presence in fibre optics. Coats will support Gotex in further expanding into high-growth markets by leveraging Coats' geographic footprint, breadth of global customer relationships and strong corporate brand.

The Group also acquired 100% of the voting equity of Fast React Systems Limited ('Fast React'), a UK based provider of software solutions and expertise to manufacturers and retailers in the apparel and footwear industries to improve their operational efficiency. The acquisition, which was completed in May 2016, enables the Group to offer an even wider range of productivity improvement tools to customers and follows the acquisition of GSD in May 2015.

The consideration transferred net of cash and cash equivalents acquired for Gotex and Fast React was $28.4 million and $7.1 million respectively.

In addition to the consideration paid there is a contingent consideration payable up to €2.0 million ($2.2 million) for Gotex. The consideration payable is determined by the revenue and gross margin achieved in the year ended 31 December 2017. The provision as at the date of acquisition of $1.1 million represented the fair value of the estimated amount payable based on expectations of performance.

Contingent deferred consideration amounts are also payable that have been treated as remuneration. For these amounts to be paid, in addition to financial targets being met, certain employees must also remain with the Group. Amounts are therefore charged to the income statement over the period of service they relate to. For Gotex up to €2 million is payable covering the service period of two years from acquisition. For Fast React up to £3 million is payable dependent on the performance over a three year period to 31 March 2019 as well as continued service of certain employees. The charge to the income statement for the year ended 31 December 2016 was $2.4 million (see note 4).

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The provisional fair values of the identifiable assets and liabilities of Gotex and Fast React as at the date of acquisition were as follows:

	Provisional fair value recognised on acquisition of Gotex US$m	Provisional fair value recognised on acquisition of Fast React US$m	Provisional Total US$m
Assets:			
Intangible assets	15.5	4.5	20.0
Property, plant and equipment	0.9	0.1	1.0
Inventories	3.0	–	3.0
Trade and other receivables	4.4	4.0	8.4
Cash and cash equivalents	2.4	4.0	6.4
	26.2	**12.6**	**38.8**
Liabilities:			
Trade and other payables	(3.3)	(5.5)	(8.8)
Deferred tax liabilities	(4.0)	(0.8)	(4.8)
	(7.3)	**(6.3)**	**(13.6)**
Total identifiable net assets acquired at fair value	**18.9**	**6.3**	**25.2**
Goodwill recognised on acquisition (provisional)	13.0	4.8	17.8
	31.9	**11.1**	**43.0**
Purchase consideration paid	30.8	11.1	41.9
Contingent purchase consideration estimated to be paid	1.1	–	1.1
Total consideration	**31.9**	**11.1**	**43.0**

In the provisional accounting, adjustments are made to the book values of the net assets of the companies acquired to reflect their provisional fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate. Due to their contractual dates, the fair value of receivables acquired (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial. There are no material contingent liabilities recognised in accordance with paragraph 23 of IFRS 3 (revised).

The fair value of identified net assets of Fast React include customer related intangibles of $2.3 million, brands and trade names of $0.9 million and technology related intangibles of $1.3 million. Goodwill arising from the acquisition has been provisionally valued at $4.8 million.

The fair value of identified net assets of Gotex include customer related intangibles of $3.8 million, brands and trade names of $0.5 million and technology related intangibles of $11.2 million. Goodwill arising from the acquisition has been provisionally valued at $13.0 million.

The goodwill arising from the acquisitions represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across the Group; and
- the ability to exploit the Group's existing customer base.

None of the goodwill arising on the acquisitions is expected to be deductible for tax purposes.

From the date of acquisition, Gotex contributed $11.7 million to revenues and $2.0 million to the profit before tax from continuing operations of the Group. Fast React contributed $3.8 million to revenues and $0.5 million to the profit before tax from continuing operations of the Group.

If the acquisitions had taken place at the beginning of the year, it is estimated that revenue from continuing operations for the year ended 31 December 2016 would have been $19.1 million for Gotex and $6.3 million for Fast React and the profit after tax from continuing operations for the year ended 31 December 2016 would have been $2.8 million for Gotex and $0.8 million for Fast React, based on unaudited management accounts.

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Transaction costs relating to the acquisitions of Gotex and Fast React totalling $0.9 million have been expensed and are included in administrative expenses in the consolidated income statement (see note 4). Transaction costs paid in the year ended 31 December 2016 were $0.8 million and are included in cash flows absorbed in investing activities in the consolidated cash flow statement.

32 Discontinued operations
Following on from the disposal of the EMEA Crafts business in 2015, Coats closed its loss-making UK Crafts operations with the business ceasing operations during the second half of 2016. The results of the UK Crafts business have been reported as a discontinued operation and prior year amounts in the consolidated income statement have been reclassified to discontinued operations.

a) Discontinued operations
The results of discontinued operations are presented below. All amounts for the year ended 31 December 2016 relate to the UK Crafts business and amounts for the year ended 31 December 2015 relate to the EMEA Crafts and UK Crafts businesses unless stated.

31 December	2016 US$m	2015 US$m
Revenue	**8.8**	64.8
Cost of sales	**(6.7)**	(32.5)
Gross profit	**2.1**	32.3
Distribution costs	**(3.8)**	(31.6)
Administrative expenses	**(2.8)**	(13.7)
Operating loss	**(4.5)**	(13.0)
Investment income	**–**	0.1
Finance costs	**–**	(0.3)
Loss before taxation	**(4.5)**	(13.2)
Tax on loss	**–**	–
Loss for the year	**(4.5)**	(13.2)
Loss on disposal (note 32(b))	**–**	(55.8)
Loss relating to sale of legacy investments	**–**	–
Exchange loss transferred to profit or loss on disposal	**–**	(7.5)
Exchange gain transferred to profit or loss on sale of legacy investment	**–**	0.5
Total loss from discontinued operations	**(4.5)**	(76.0)

The UK Crafts results for the year ended 31 December 2016 include exceptional closure related costs of $1.2 million included in administrative expenses. Included in discontinued results above for the year ended 31 December 2015 are revenue and operating loss of $17.0 million and $0.5 million respectively for the UK Crafts business.

The loss per ordinary share from discontinued operations is as follows:

	2016 Cents	2015 Cents
Loss per ordinary share from discontinued operations:		
Basic and diluted	**(0.32)**	(5.42)

The table below sets out the cash flows from discontinued operations:

	2016 US$m	2015 US$m
Net cash outflow from operating activities	**(4.9)**	(11.6)
Net cash outflow from investing activities	**(3.7)**	(22.5)
Net cash flows from discontinued operations	**(8.6)**	(34.1)

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b) Loss on disposal
The major classes of assets and liabilities disposed relating to EMEA Crafts was as follows:

Year ended 31 December	2016 US$m	2015 US$m
Property, plant and equipment	–	0.6
Available-for-sale investments	–	1.5
Deferred tax assets	–	1.3
Inventories	–	26.3
Trade and other receivables	–	34.1
Cash and cash equivalents	–	14.9
Total assets	–	78.7
Trade and other payables	–	(23.1)
Provisions	–	(2.2)
Retirement benefit obligations	–	(9.3)
Total liabilities	–	(34.6)
Net assets disposed	–	44.1
Consideration received	–	–
Disposal costs and completion adjustments	–	11.7
Loss on disposal	–	55.8

c) Assets held for sale
The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

31 December	2016 US$m	2015 US$m
Property, plant and equipment	**0.2**	–
	0.2	–

33 Related party transactions
Remuneration of key management personnel
The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures. Further information regarding the remuneration of individual directors is provided on pages 52 to 71 in the audited part of the Directors' remuneration report.

Year ended 31 December	2016 US$m	**2015 US$m**
Short-term employee benefits	**5.1**	5.1
Share based payments	**1.3**	–
	6.4	5.1

Trading transactions
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures are disclosed below.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sale of goods		Purchase of goods		Other income	
	2016 US$m	2015 US$m	2016 US$m	2015 US$m	2016 US$m	2015 US$m
Joint ventures	**2.8**	5.5	**46.2**	44.1	–	0.1

Amounts owing by/(to) joint ventures at the year end are disclosed in notes 18 and 20. During the year ended 31 December 2015 the Group sold its shareholding in its joint venture in the Philippines to its joint venture partner (see note 15 for further details).

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34 Derivatives and Other Financial Instruments
The Group's main financial instruments comprise:

Financial assets:
- cash and cash equivalents;
- trade and other receivables that arise directly from the Group's operations; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

Financial liabilities:
- trade, other payables and certain provisions that arise directly from the Group's operations;
- bank borrowings and overdrafts; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

Financial assets
The Group's financial assets are summarised below:

31 December	2016 US$m	2015 US$m
Financial assets carried at amortised cost (loans and receivables):		
Cash and cash equivalents	**476.5**	649.9
Trade receivables (note 18)	**198.5**	209.5
Due from joint ventures (note 18)	**0.3**	0.3
Other receivables (note 18), net of non-financial assets $22.2 million (2015: $22.3 million)	**30.7**	29.8
	706.0	889.5
Financial assets carried at fair value through the income statement:		
Derivative financial instruments (note 19)	**3.1**	3.1
	3.1	3.1
Other financial assets carried at fair value through the statement of comprehensive income:		
Available-for-sale investments (note 15)	**1.3**	1.7
Derivative financial instruments (note 19)	**0.5**	0.3
	1.8	2.0
Total financial assets	**710.9**	894.6

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Financial liabilities
The Group's financial liabilities are summarised below:

31 December	2016 US$m	2015 US$m
Financial liabilities carried at amortised cost:		
Trade payables (note 20)	**176.4**	191.6
Due to joint ventures (note 20)	**11.5**	11.7
Other financial liabilities	**109.5**	109.5
Provisions (note 24)	**4.8**	7.1
Borrowings (note 22)	**398.3**	409.3
	700.5	729.2
Financial liabilities carried at fair value through the income statement:		
Derivative financial instruments (note 21)	**8.7**	4.2
Derivatives designated as effective hedging instruments and carried at fair value through the statement of comprehensive income:		
Derivative financial instruments (note 21)	**–**	0.3
Total financial liabilities	**709.2**	733.7

Other financial liabilities include other payables, other than taxation and other statutory liabilities.

Fair value of financial assets and liabilities
The fair value of the Group's financial assets and liabilities is summarised below:

	2016		2015	
	Book value US$m	Fair value US$m	Book value US$m	Fair value US$m
Primary financial instruments:				
Cash and cash equivalents	**476.5**	**476.5**	649.9	649.9
Trade receivables	**198.5**	**198.5**	209.5	209.5
Due from joint ventures	**0.3**	**0.3**	0.3	0.3
Other receivables	**30.7**	**30.7**	29.8	29.8
Available-for-sale investments	**1.3**	**1.3**	1.7	1.7
Trade payables	**(176.4)**	**(176.4)**	(191.6)	(191.6)
Due to joint ventures	**(11.5)**	**(11.5)**	(11.7)	(11.7)
Other financial liabilities and provisions	**(114.3)**	**(114.3)**	(116.6)	(116.6)
Borrowings	**(398.3)**	**(398.3)**	(409.3)	(409.3)
Derivative financial instruments:				
Forward foreign currency contracts	**(5.6)**	**(5.6)**	(1.1)	(1.1)
Interest rate swaps	**0.5**	**0.5**	–	–
Net financial assets	**1.7**	**1.7**	160.9	160.9

Market values have been used as proxies for the fair value of all listed investments. Unlisted investments are stated at fair value. For floating rate financial assets and liabilities, and for fixed rate financial assets and liabilities with a maturity of less than 12 months, it has been assumed that fair values are approximately the same as book values. Fair values for forward foreign currency contracts have been estimated using applicable forward exchange rates at the year end. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates.

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Fair value measurements recognised in the statement of financial position

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques which include inputs for the asset or liability that are not observable market data (unobservable inputs).

Financial assets measured at fair value

31 December	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2016				
Financial assets measured at fair value through the income statement:				
Trading derivatives	**3.1**	**–**	**3.1**	**–**
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	**1.3**	**–**	**–**	**1.3**
Derivatives designated as effective hedging instruments	**0.5**	**–**	**0.5**	**–**
	4.9	**–**	**3.6**	**1.3**
2015				
Financial assets measured at fair value through the income statement:				
Trading derivatives	3.1	–	3.1	–
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	1.7	–	–	1.7
Derivatives designated as effective hedging instruments	0.3	–	0.3	–
	5.1	–	3.4	1.7

Financial liabilities measured at fair value

	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2016				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(8.7)**	**–**	**(8.7)**	**–**
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	**–**	**–**	**–**	**–**
	(8.7)	**–**	**(8.7)**	**–**
2015				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(4.2)	–	(4.2)	–
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	(0.3)	–	(0.3)	–
	(4.5)	–	(4.5)	–

Level 1 financial instruments are valued based on quoted bid prices in an active market. Level 2 financial instruments are measured by discounted cash flow. For interest rates swaps future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the various counterparties. For foreign exchange contracts future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the various counterparties. For equity instruments that are classified as level 3 financial instruments the carrying value approximates to fair value.

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The main risks arising from the Group's financial instruments are as follows:

- currency risk;
- interest rate risk.
- capital risk;
- market price risk;
- liquidity risk; and
- credit risk.

The Group's policies for managing those risks are described on pages 137 to 144 and, except as noted, have remained unchanged since the beginning of the year to which these financial statements relate.

Currency risk
The income and capital value of the Group's financial instruments can be affected by exchange rate movements as a significant portion of both its financial assets and financial liabilities are denominated in currencies other than US Dollars, which is the Group's presentational currency. The accounting impact of these exposures will vary according to whether or not the Group company holding such financial assets and liabilities reports in the currency in which they are denominated.

The Board recognises that the Group's US Dollar statement of financial position will be affected by short term movements in exchange rates, particularly the value of Sterling, Euro, Indian Rupee and Brazilian Real. The Board takes the view that the major currencies in which the Group is invested move within a relatively stable range and that currency fluctuations should even out over the long term. Cash held by the parent Group is held in Sterling pending finalisation of the Pension Regulator investigation into the Group's three UK pension schemes.

The Group uses forward foreign currency contracts to mitigate the currency exposure that arises on business transacted in currencies other than its own functional currency. Such foreign currency contracts are only entered into when there is a firm commitment to the underlying transaction. The contracts used to hedge future transactions typically have a maturity of between three months and one year.

Interest rate risk
In 2016, the Group financed its operations through shareholders' funds, bank borrowings and overdrafts. The Group's trading subsidiaries use a mixture of fixed and floating rate debt. The Group also has access to bank facilities amounting to some $680.0 million, of which $440.1 million had been drawn down at year end. This includes facilities negotiated by certain trading subsidiaries to meet their local needs.

Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings using interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and risk appetite.

The Group's interest income does not vary significantly from the returns it would generate through investing surplus cash at floating rates of interest since the interest rates are re-set on a regular basis.

A reasonably possible change of one per cent in market interest rates would change profit before tax by approximately $1.9 million (2015: $3.7 million), and would change shareholders' funds by approximately $6.0 million (2015: $10.6 million).

Trade and other receivables and trade and other payables are excluded from the following disclosure (other than the currency disclosures) as there is limited interest rate risk.

Capital risk management
The Group manages its capital so as to ensure that the Company and the Group will be able to continue as a going concern.

The Group's capital structure comprises cash and cash equivalents and borrowings (see Summary of net cash on page 130), and share capital and reserves attributable to the equity shareholders of the Company.

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Currency exposure

The table below shows the extent to which Group companies have financial assets and liabilities, excluding forward foreign currency contracts, in currencies other than their functional currency. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves, but includes other Group balances that eliminate on consolidation.

	Net foreign currency financial assets/(liabilities)						
Functional currency 2016	Sterling US$m	US dollars US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m	Other US$m	Total US$m
Sterling	**–**	**(0.2)**	**1.8**	**–**	**–**	**(0.4)**	**1.2**
US dollars	**(13.2)**	**–**	**(1.3)**	**0.1**	**0.7**	**29.2**	**15.5**
Euros	**0.5**	**(0.7)**	**–**	**–**	**–**	**0.6**	**0.4**
Indian Rupees	**–**	**(7.8)**	**(0.2)**	**–**	**–**	**–**	**(8.0)**
Brazilian Reals	**–**	**10.9**	**–**	**–**	**–**	**–**	**10.9**
Other currencies	**0.2**	**(24.4)**	**7.0**	**–**	**–**	**(2.1)**	**(19.3)**
	(12.5)	**(22.2)**	**7.3**	**0.1**	**0.7**	**27.3**	**0.7**

	Net foreign currency financial assets/(liabilities)						
Functional currency 2015	Sterling US$m	US dollars US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m	Other US$m	Total US$m
Sterling	–	0.1	(2.0)	–	–	0.5	(1.4)
US dollars	(16.0)	–	(6.2)	0.9	–	44.4	23.1
Euros	0.6	0.8	–	–	–	(1.2)	0.2
Indian Rupees	–	(15.3)	(0.1)	–	–	–	(15.4)
Brazilian Reals	–	15.5	0.1	–	–	–	15.6
Other currencies	(0.5)	6.0	10.2	–	–	(16.5)	(0.8)
	(15.9)	7.1	2.0	0.9	–	27.2	21.3

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The following table shows the impact on pre-tax profit and shareholders' funds of reasonably possible changes in exchange rates against each of the major foreign currencies in which the Group transacts:

2016	Sterling US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m
Increase in US dollar exchange rate	**10%**	**10%**	**10%**	**10%**
Increase/(decrease) in profit before tax	**(1.3)**	**(0.11)**	**0.8**	**(1.0)**
Increase/(decrease) in shareholders' funds	**(24.2)**	**1.5**	**6.1**	**1.7**

2015	Sterling US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m
Increase in US dollar exchange rate	10%	10%	10%	10%
Increase/(decrease) in profit before tax	(1.6)	(0.7)	1.6	(1.5)
Increase/(decrease) in shareholders' funds	6.6	(3.9)	6.9	2.1

Currency profile of financial assets
The currency profile of the Group's financial assets was as follows:

	2016					2015				
Currency	Investments US$m	Cash and cash equivalents US$m	Trade and other receivables US$m	Derivative financial instruments US$m	Total US$m	Investments US$m	Cash and cash equivalents US$m	Trade and other receivables US$m	Derivative financial instruments US$m	Total US$m
Sterling	**–**	**343.4**	**4.5**	**–**	**347.9**	–	504.1	6.4	–	510.5
United States dollars	**0.1**	**48.4**	**94.6**	**8.4**	**151.5**	0.1	52.0	100.2	8.4	160.7
Euros	**0.1**	**6.5**	**22.5**	**(22.3)**	**6.8**	0.1	4.7	19.5	(22.3)	2.0
Indian Rupees	**1.1**	**12.6**	**21.8**	**20.0**	**55.5**	1.5	21.8	21.7	20.0	65.0
Brazilian Reals	**–**	**5.5**	**14.5**	**(1.4)**	**18.6**	–	3.2	8.7	(1.5)	10.4
Other currencies	**–**	**60.1**	**71.6**	**(1.1)**	**130.6**	–	64.1	83.1	(1.2)	146.0
Total financial assets	**1.3**	**476.5**	**229.5**	**3.6**	**710.9**	1.7	649.9	239.6	3.4	894.6

The investments included above comprise listed and unlisted investments in shares and bonds.

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Currency and interest rate profile of financial liabilities

The currency and interest rate profile of the Group's financial liabilities was as follows:

31 December	2016					2015				
	Floating rate US$m	Fixed rate US$m	Interest free US$m	Derivative financial instruments US$m	Total US$m	Floating rate US$m	Fixed rate US$m	Interest free US$m	Derivative financial instruments US$m	Total US$m
Currency:										
Sterling	**–**	**–**	**12.9**	**(81.8)**	**(68.9)**	2.8	–	13.4	(82.9)	(66.7)
United States dollars	**156.4**	**200.3**	**141.0**	**165.4**	**663.1**	129.9	215.5	163.5	152.9	661.8
Euros	**37.5**	**–**	**17.9**	**(27.8)**	**27.6**	56.4	–	14.8	(55.7)	15.5
Indian Rupees	**0.4**	**–**	**39.3**	**(18.5)**	**21.2**	1.3	–	43.0	–	44.3
Brazilian Reals	**–**	**–**	**14.7**	**2.3**	**17.0**	1.0	–	9.9	0.7	11.6
Other currencies	**3.5**	**0.2**	**76.4**	**(30.9)**	**49.2**	2.4	0.1	75.2	(10.5)	67.2
Total financial liabilities	**197.8**	**200.5**	**302.2**	**8.7**	**709.2**	193.8	215.6	319.8	4.5	733.7

The benchmark for determining floating rate liabilities in the UK is LIBOR for both sterling and US$ loans.

Details of fixed and non interest-bearing liabilities (excluding derivatives and trade and other payables) are provided below:

31 December	2016			2015		
	Fixed rate financial liabilities		Financial liabilities on which no interest is paid	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)
Currency:						
Sterling	**–**	**–**	**17**	–	–	16
United States dollars	**2.80%**	**19**	**–**	2.80%	30	–
Weighted average	**2.80%**	**19**	**17**	2.80%	30	16

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Currency profile of foreign exchange derivatives

31 December	Assets 2016 US$m	Assets 2015 US$m	Liabilities 2016 US$m	Liabilities 2015 US$m
Currency:				
Sterling	**83.6**	82.8	**(1.8)**	(1.5)
United States dollars	**60.5**	64.1	**(176.2)**	(208.5)
Euros	**28.8**	68.7	**(33.3)**	(35.2)
Indian Rupee	**19.8**	20.0	**–**	–
Brazilian Real	**–**	–	**(2.3)**	(2.2)
Other currencies	**38.9**	35.9	**(23.6)**	(25.2)
	231.6	271.5	**(237.2)**	(272.6)

The $5.6 million net liability (2015: $1.1 million) in relation to foreign exchange financial instruments in the table above is split $3.1 million (2015: $3.1 million) within assets note 19 and $8.7 million (2015: $4.2 million) within liabilities note 21.

Market price risk
The Group has equity and bond available-for-sale investments at 31 December 2016 of $1.3 million ($1.7 million) held for strategic rather than trading purposes. The Group does not actively trade these investments and is not materially exposed to price risk.

The sensitivity analyses below have been determined based on the exposure to reasonably possible price changes for the investments held at the year end.

31 December	2016 US$m	2015 US$m
Impact of a 10% increase in prices:		
Increase in pre-tax profit for the year	**–**	–
Increase in equity shareholders' funds	**0.1**	0.2

Liquidity risk
The Group typically holds cash balances in deposits with a short maturity. Additional resources can be drawn through committed borrowing facilities at operating subsidiary level. During the year the Group has complied with all externally imposed capital requirements.

The Group had the following undrawn committed borrowing facilities in respect of which all conditions precedent had been met at the year-end:

31 December	2016 US$m	2015 US$m
Expiring between one and two years	**–**	–
Expiring between two and five years	**239.9**	222.6
	239.9	222.6

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Maturity of undiscounted financial assets (excluding derivatives)
The expected maturity of the Group's financial assets, using undiscounted cash flows, was as follows:

31 December	2016 US$m	2015 US$m
In one year or less, or on demand	**692.0**	875.5
In more than one year but not more than two years	**7.5**	8.2
In more than two years but not more than five years	**3.5**	2.1
In more than five years	**5.3**	6.5
	708.3	892.3

Maturity of undiscounted financial liabilities (excluding derivatives)
The expected maturity of the Group's financial liabilities, using undiscounted cash flows, was as follows:

31 December	2016 US$m	2015 US$m
In one year or less, or on demand	**303.0**	335.3
In more than one year but not more than two years	**36.6**	7.2
In more than two years but not more than five years	**360.4**	388.7
	700.0	731.2

The above table comprises the gross amounts payable in respect of borrowings (including interest thereon), trade and other non-statutory payables and certain provisions, over the period to the maturity of those liabilities.

Maturity of undiscounted financial derivatives
The maturity of the Group's financial derivatives (on a gross basis), which include interest rate and foreign exchange swaps, using undiscounted cash flows, was as follows:

	Assets		Liabilities	
31 December	2016 US$m	2015 US$m	2016 US$m	2015 US$m
In one year or less, or on demand	**232.0**	271.0	**(237.2)**	(273.8)
In more than one year but not more than two years	**0.1**	0.6	**–**	(1.4)
In more than two years but not more than five years	**0.2**	–	**–**	(0.9)
	232.3	271.6	**(237.2)**	(276.1)

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Credit risk

31 December	2016 US$m	2015 US$m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	**476.5**	649.9
Derivative financial instruments	**3.6**	3.4
Trade receivables (net of bad debt provision)	**198.5**	209.5
Due from joint ventures	**0.3**	0.3
Other receivables	**30.7**	29.8
	709.6	892.9
Financial assets considered not to have exposure to credit risk:		
Available-for-sale investments	**1.3**	1.7
Total financial assets	**710.9**	894.6
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	**20.3**	29.3
Trade receivables between 1 and 2 months over permitted credit period	**4.6**	6.0
Trade receivables between 2 and 3 months over permitted credit period	**1.1**	2.4
Trade receivables between 3 and 6 months over permitted credit period	**1.6**	1.9
Trade receivables in excess of 6 months over permitted credit period	**–**	0.1
Total gross trade receivables in excess of permitted credit period	**27.6**	39.7
Trade receivables within permitted credit period	**170.9**	169.8
Total net trade receivables	**198.5**	209.5
Analysis of trade receivables impairment provision:		
Trade receivables up to 1 month over permitted credit period	**0.2**	0.1
Trade receivables between 1 and 2 months over permitted credit period	**0.3**	0.4
Trade receivables between 2 and 3 months over permitted credit period	**0.1**	0.2
Trade receivables between 3 and 6 months over permitted credit period	**0.4**	0.3
Trade receivables in excess of 6 months over permitted credit period	**10.8**	10.3
Total impairment provision	**11.8**	11.3

Trade receivables consist of a large number of customers, spread across diverse geographical areas and industries.

Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment record with other suppliers, bank references and credit rating agency reports. All active customers are subject to an annual review, or more frequent if appropriate, review of their credit limits and credit periods.

The Group does not have a significant credit risk exposure to any single customer.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Hedges
During 2016, the Group has hedged the following exposures:

- interest rate risk – using interest rate swaps; and
- currency risk – using forward foreign currency contracts.

At 31 December 2016, the fair value of such hedging instruments was a net liability of $5.1 million (2015: $1.1 million).

Cash flow hedges outstanding at 31 December are expected to impact the income statement in the following periods:

	2016 US$m Loss	2015 US$m Loss
Within one year	**0.2**	–
Within one to two years	**0.1**	–
Within two to five years	**0.1**	–
	0.4	–

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

All interest rate swap contracts exchanging floating rate interest rate amounts for fixed interest rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

35 Share-based payments
The total cost recognised in the consolidated Income Statement in respect of share-based payment plans was as follows:

	2016			2015		
Year ended 31 December	Equity-settled US$m	Cash-settled US$m	Total US$m	Equity-settled US$m	Cash-settled US$m	Total US$m
Capital incentive plan ('CIP')	**–**	**–**	**–**	–	1.3	1.3
Long term incentive plan ('LTIP')	**4.7**	**(1.6)**	**3.1**	3.1	1.7	4.8
Deferred bonuses	**0.4**	**–**	**0.4**	0.8	–	0.8
	5.1	**(1.6)**	**3.5**	3.9	3.0	6.9

CIP
This scheme was a cash settled share based payment arrangement that has now fully vested.

LTIP
Under the terms of the Coats Group LTIP, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options). The vesting of awards is subject to the satisfaction of a three year performance condition, which is determined by the Remuneration Committee at the time of grant. The performance condition includes both market and non-market based measures.

Details of options outstanding under equity settled awards:

	2016 Options	2015 Options
Outstanding at 1 January	**54,034,129**	–
Granted during the year	**33,425,357**	55,556,769
Lapsed during the year	**(6,131,033)**	(1,522,640)
Exercised during the year	**–**	–
Outstanding at 31 December	**81,328,453**	54,034,129
Exercisable at 31 December	**–**	–

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

During 2015 there were 23,047,525 nil cost options (included in the figures above) granted under the terms of the Coats Limited Interim LTIP. These options were originally deferred cash bonus awards to the 3 year performance period 1 January 2014 to 31 December 2016. Awards were converted to nil cost options on 26 February 2015 and will vest, subject to performance conditions after the public announcement of results for the year ended 31 December 2016. The performance conditions remained unchanged upon conversion to nil cost options.

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.2 years (2015: 1.6 years).

The fair value of the market-based component of these awards was calculated using the Monte Carlo simulation method to reflect the likelihood of the market-based Total Shareholder Return ('TSR') performance condition, which attach to 20% (2015: 20%) of the award, being met, using the following assumptions:

	2016	2015
Vesting period	**3 years**	3 years
Share price at valuation date	**26.0p**	25.0p
Exercise price	**Nil**	Nil
Risk free rate	**0.37%**	0.63%
Expected dividend yield	**0%**	0%
Expected volatility	**26.14%**	26.34%
Average correlation	**20.90%**	20.26%
Fair value per share	**14.9p**	6.8p

Deferred bonuses
Under the terms of the Coats Group Deferred Bonus Plan, any bonuses awarded to executive directors and key senior management will be the subject of a mandatory 25% deferred into shares, to be held for a three year retention period. Annual bonuses will be determined by reference to performance, in the normal course measured over one financial year. Awards are normally exercisable after three years.

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.0 years (2015: 2.5 years).

Share option scheme
The Company granted a number of awards under a share option scheme prior to 2010. All share options under this scheme have fully vested and can be exercised up to 10 years from the date of grant.

Outstanding options granted after November 2002 are as follows:

	2016		2015	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at 1 January	**38,296,504**	**52.18p**	66,976,478	50.68p
Lapsed during the year	**(13,150,014)**	**57.23p**	(28,679,974)	48.67p
Exercised during the year	**(947,389)**	**25.95p**	–	–
Outstanding at 31 December	**24,199,101**	**50.46p**	38,296,504	52.18p
Exercisable at 31 December	**24,199,101**	**50.46p**	38,296,504	52.18p

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 0.9 years (2015: 1.4 years).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

36 Post balance sheet events

Albany distribution centre

On 22 January 2017, the main distribution centre for the US Crafts business in Albany, Georgia suffered significant damage following a tornado strike, including one building which housed sourced products for yarns, threads and crafting implements. The decision had been taken to close the centre at the time and there were no injuries to Coats' personnel. Although buildings in the centre are leased, our initial estimate is that the tornado has damaged a significant proportion of the stock as well as causing disruption to our logistics activities. Given the extent of the damage, temporary alternative premises have been found but operations are not expected to be fully back to normal until later in Q2.

The Group's insurance policies are expected to be sufficient to cover both the loss of inventory and physical assets. Although sales will be adversely impacted in the first half, lost profits as well as the incremental costs of re-establishing operations are included in the Group's business interruption insurance cover.

Settlement agreement and cessation of TPR regulatory action for two pension schemes

On 16 February 2017 the Company signed binding settlement agreements with the Trustees of the Coats UK Pension Plan and Brunel Holdings Pension Scheme. On 28 February 2017 agreed cash payments of £200.0 million and £34.5 million were made by the Company into the Coats UK Pension Plan and Brunel Holdings Pension Scheme respectively. Regulatory action by the UK Pensions Regulator in relation to these two schemes under the Warning Notices that it issued to Coats in 2013 and 2014 has now ceased.

The Trustees of the Staveley scheme have not to date accepted the Company's proposal regarding that scheme and currently the UK Pension Regulator's investigation in connection with that scheme remains open.

37 Alternative performance measures

Alternative performance measures included in the Annual Report are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Non-GAAP amounts, however, are not a measure of financial performance under IFRS and should not be considered as a substitute for measures determined in accordance with GAAP. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is included below. The non-GAAP measures set out below are key performance indicators (KPIs) and have been chosen by the Board to measure the Group's progress, development and ongoing performance. Further details on KPIs, including explanations as to why they are used, are included on pages 14 and 15.

a) Organic growth

Organic growth measures the change in revenue and operating profit[1] after adjusting for acquisitions. The effect of acquisitions is equalised by:

- removing from the year of acquisition, their revenue and operating profit[1]; and
- in the following year, removing the revenue and operating profit[1] for the number of months equivalent to the pre-acquisition period in the prior year.

The effects of currency changes are removed through restating prior year revenue and operating profit[1] at current year exchange rates.

Year ended 31 December	2016 US$m	2015 US$m	% Growth
Revenue from continuing operations	**1,457.3**	1,472.5	(1%)
Constant currency adjustment	**–**	(40.3)	
Revenue at constant currency	**1,457.3**	1,432.2	2%
Revenue from acquisitions	**(16.4)**	–	
Organic revenue at constant currency	**1,440.9**	1,432.2	1%

Year ended 31 December	2016 US$m	2015 US$m	% Growth
Operating profit	**153.3**	111.5	38%
Exceptional and acquisition related items (note 4)	**4.6**	28.4	
Adjusted operating profit from continuing operations[1]	**157.9**	139.9	13%
Constant currency adjustment	**–**	(3.8)	
Operating profit at constant currency[1]	**157.9**	136.1	16%
Operating profit from acquisitions[1]	**(2.8)**	–	
Organic operating profit at constant currency[1]	**155.1**	136.1	**14%**

1 Before exceptional and acquisition related items

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

b) Adjusted earnings per share
The calculation of adjusted earnings per share is based on the profit from continuing operations attributable to equity shareholders before exceptional and acquisition related items and foreign exchange gains and losses arising on cash relating to the realisation of investments previously held by Coats Group plc as set out below.

Year ended 31 December	2016 US$m	Restated 2015 US$m
Profit from continuing operations	**75.7**	36.6
Non-controlling interests	**(11.9)**	(11.2)
Profit from continuing operations attributable to equity shareholders	**63.8**	25.4
Exceptional and acquisition related items (note 4)	**4.6**	29.9
Foreign exchange losses on Parent Group cash[1]	**–**	3.2
Tax credit in respect of exceptional and acquisition related items	**(0.4)**	(2.5)
Adjusted profit from continuing operations	**68.0**	56.0
Weighted average number of Ordinary Shares	**1,386,628,130**	1,400,765,235
Adjusted earnings per share (cents)	**4.91**	4.00
Adjusted earnings per share (growth %)	**23%**	

1 Cash relating to the realisation of investments previously held by Coats Group plc.

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2016 is 1,386,628,130 (2015: 1,400,765,325), the same as that used for basic earnings per Ordinary Share from continuing operations (see note 11).

c) Adjusted free cash flow
Net cash generated by operating activities, a GAAP measure, reconciles to changes in net cash resulting from cash flows (free cash flow) as set out in the consolidated cash flow statement. A reconciliation of free cash flow to adjusted free cash flow is set out below:

Year ended 31 December	2016 US$m	Restated 2015 US$m
Change in net cash resulting from cash flows (free cash flow)	**(83.7)**	(21.4)
Acquisition of businesses (note 30(d))	**36.3**	5.5
Net cash flows from discontinued operations (note 32)	**8.6**	34.1
Net cash outflow in respect of reorganisation costs	**8.0**	10.4
Net cash inflow from property disposals	**–**	(9.9)
UK Pensions Regulator (‘tPR’) investigation costs	**3.7**	8.9
Payments to UK pension schemes	**99.1**	33.8
Net cash flows in respect of other exceptional items	**4.2**	1.3
Purchase of own shares by Employee Benefit Trust	**2.9**	7.6
Receipts from exercise of share options	**(0.2)**	–
Tax (inflow)/outflow in respect of adjusted cash flow items	**(0.8)**	0.7
Adjusted free cash flow	**78.1**	71.0

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

d) Return on capital employed
Return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items divided by period end capital employed as set out below:

31 December	2016 US$m	2015 US$m
Operating profit before exceptional and acquisition related items	**157.9**	139.9
Non-current assets:		
Property, plant and equipment	**265.9**	273.0
Trade and other receivables	**16.1**	16.4
Current assets:		
Inventories	**205.8**	204.0
Trade and other receivables	**248.4**	261.9
Current liabilities:		
Trade and other payables	**(310.8)**	(320.7)
Non-current liabilities:		
Trade and other payables	**(15.8)**	(12.4)
Capital employed	**409.6**	422.2
ROCE	**39%**	33%

e) Pre-exceptional operating profit before depreciation and amortisation (EBITDA)
EBITDA was $198.6 million (2015 $183.4 million). Net debt for the Coats operating business (excluding Parent Group cash) was $264.9 million (2015: $264.0 million). This gives a leverage ratio of Net Debt to EBITDA of 1.3 (2015: 1.4). Refer to notes 30(a) and 30(e) for definitions and calculations of EBITDA and Net Debt, respectively. A reconciliation of Net Cash is also provided in note 30(e).

COMPANY BALANCE SHEET

31 December	Notes	2016 £m	2015 £m
Fixed assets:			
Investments	4	**377.5**	374.1
Current assets:			
Loans to subsidiary undertakings		**–**	2.8
Cash at bank and in hand		**–**	2.0
		–	4.8
Creditors: amounts falling due within one year:			
Loans from subsidiary undertakings		**(208.3)**	(202.2)
Net current liabilities		**(208.3)**	(197.4)
Total assets less current liabilities		**169.2**	176.7
Provisions for liabilities	5	**(2.7)**	(8.9)
Net assets		**166.5**	167.8
Capital and reserves:			
Share capital	7	**70.4**	70.4
Share premium account		**0.6**	0.6
Capital redemption reserve		**11.4**	11.4
Share options reserve		**14.9**	11.5
Capital reduction reserve		**48.3**	48.3
Own shares	7	**(7.0)**	(4.9)
Profit and loss account		**27.9**	30.5
Shareholders' funds		**166.5**	167.8

The Company reported a loss for the financial year ended 31 December 2016 of £2.6 million (2015: £12.1 million).

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 9 March 2017

Company Registration No.103548

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Share options reserve £m	Capital reduction reserve £m	Own shares £m	Profit and loss account £m	Total £m
1 January 2015	70.4	0.6	11.4	8.7	48.3	–	42.6	182.0
Loss for the year	–	–	–	–	–	–	(12.1)	(12.1)
Share based payments	–	–	–	2.8	–	–	–	2.8
Purchase of own shares	–	–	–	–	–	(4.9)	–	(4.9)
31 December 2015	70.4	0.6	11.4	11.5	48.3	(4.9)	30.5	167.8
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(2.6)**	**(2.6)**
Share based payments	**–**	**–**	**–**	**3.4**	**–**	**–**	**–**	**3.4**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**(2.1)**	**–**	**(2.1)**
31 December 2016	**70.4**	**0.6**	**11.4**	**14.9**	**48.3**	**(7.0)**	**27.9**	**166.5**

COMPANY CASH FLOW STATEMENT

For the year ended 31 December	2016 £m	2015 £m
Net cash flows from operating activities:		
Operating loss	**(0.1)**	(4.6)
Decrease in debtors	**2.8**	–
Increase in creditors	**3.4**	15.8
Movement in provisions	**(6.2)**	(4.3)
Net cash flows from operating activities	**(0.1)**	6.9
Net cash flows from financing activities:		
Purchase of own shares	**(2.1)**	(4.9)
Receipts from exercise of share options	**0.2**	–
Net cash flows from financing activities	**(1.9)**	(4.9)
Net (decrease)/increase in cash and cash equivalents	**(2.0)**	2.0
Cash at bank and in hand at the beginning of the year	**2.0**	–
Cash at bank and in hand at the end of the year	**–**	2.0

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

a) General information and basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting standard 102 (FRS 102) as issued by the Financial Reporting Council.

The functional currency of Coats Group plc is considered to be Pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

b) Fixed assets – investments

Investments in subsidiary undertakings are reflected at cost less provisions for any impairment.

c) Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All financial assets and financial liabilities are initially measured at transaction price. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

d) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit and loss and the assets is reduced to its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

e) Share-based payments

Cash-settled

The Company operates a cash-settled share-based compensation plan for the benefit of certain employees of an operating subsidiary. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

Equity-settled

The Group operates an equity-settled Long Term Incentive Plan for executives and senior management, settlement is in the form of Coats Group plc shares. Awards under this plan are subject to both market-based and non-market-based vesting criteria.

The fair value at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. As the Long Term Incentive Plan relates to employees of a subsidiary, and there is no recharge of the cost, the fair value is charged to Investments on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected vesting for non market-based performance conditions and forfeitures . The corresponding credit is to shareholders' funds.

To satisfy awards under this Plan, shares may be purchased in the market by an Employee Benefit Trust ('EBT') over the vesting period. Coats Group plc is the sponsoring employer of the EBT and its activities are considered an extension of the Company's activities. Therefore the shares purchased by the EBT are included as a deduction from shareholders' funds and other assets and liabilities of the EBT are recognised as assets and liabilities of Coats Group plc.

f) Taxation

Provision is made for taxation assessable on the profit or loss for the year as adjusted for disallowable and non-taxable items. Deferred taxation is provided in full in respect of timing differences which have arisen but not reversed at the balance sheet date, except that deferred tax assets (including those attributable to tax losses carried forward) are only recognised if it is considered more likely than not that they will be recovered. Deferred taxation is measured on a non-discounted basis.

g) Dividends

Dividends proposed are recognised in the period in which they are formally approved for payment.

h) Critical accounting judgements and key sources of estimation uncertainty

Carrying value of investments:

The carrying values of investments are assessed annually for indicators of impairment. If an impairment review is required judgement is involved in calculating the recoverable amount.

Provisions:

In determining the level of provisions held at year end the Directors takes advice from external experts as appropriate. The nature of the estimates adopted is such that the final liability that crystallises may differ from these estimates.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

2 Result for the year

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The loss for the year attributable to shareholders was £2.6 million (2015: £12.1 million).

Details of directors' remuneration are set out on pages 52 to 71 within the Remuneration Report and form part of these financial statements.

3 Dividends

No dividend in respect of the year ended 31 December 2016 was paid to Coats Group plc shareholders during the year (2015: £Nil). Details of the proposed final dividend for the year ended 31 December 2016 are set out in note 12 of the consolidated financial statements.

4 Investments

	Investments in subsidiary undertakings £m
At 1 January 2015	371.3
Additions	2.8
At 31 December 2015	374.1
Additions	3.4
At 31 December 2016	**377.5**

Additions to investments represent equity settled share based payments relating to employees of subsidiaries that has not been recharged.

Further information about subsidiaries is provided on pages 155 to 160.

5 Provisions

Provisions are analysed as follows:

31 December	2016 £m	2015 £m
Onerous leases	–	0.3
Other provisions	**2.7**	8.6
	2.7	8.9

	Onerous leases £m	Other provisions £m	Total £m
At 1 January 2016	0.3	8.6	8.9
Utilised in year	(0.3)	(5.9)	(6.2)
At 31 December 2016	**–**	**2.7**	**2.7**

Other provisions includes costs expected to be incurred dealing with the tPR's investigation (see note 24 of the consolidated financial statements for further details).

6 Operating lease commitments

31 December	2016 £m	2015 £m
Outstanding commitments under non-cancellable operating leases:	**–**	0.1
Payable between one and five years	**–**	0.1

At the balance sheet date, the Company had contracted with tenants for receipt of the following minimum lease payments:

31 December	2016 £m	2015 £m
Receivable within one year	**–**	0.1
Receivable between one and five years	**–**	–
	–	0.1

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

7 Share capital
There are 1,407,612,282 Ordinary Shares of 5p issued at 31 December 2016 (2015: 1,407,612,282).

The own shares reserve of £7.0 million at 31 December 2016 (2015: £4.9 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 31 December 2016 was 25,746,861 (2015: 17,625,636).

8 Related party transactions
Amounts due from and to other Group companies are disclosed on the face of the Balance sheet on page 149.

Interest payable to other Group companies during 2016 was £2.5 million (2015: £7.4 million).

9 Share based payments
The cost of equity share based payments of £3.4 million (2015: £2.8 million) has been charged to investments as no amounts are recharged to subsidiaries.

The charge relates to the Long Term Incentive Plan and Deferred bonuses. Further details on these schemes are set out in note 36 of the consolidated financial statements.

GROUP STRUCTURE

Unless otherwise indicated, all shareholdings owned directly or indirectly by the Group represents 100% of issued share capital of the Subsidiary.

Company	Address	Description and proportion of shares held (%)
Subsidiaries: Direct holdings of the Company		
Arrow HJC	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
B.M. Estates Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	11,00,000 Ordinary shares
Blackwood Hodge Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	240,692,884 Ordinary shares
BMM (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
CE (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2,365,839 Ordinary shares
Coats Group (BVI) Ltd	Craigmuir Chambers, Road Town, Tortola VG1110, British Virgin Islands	60,463,713 Ordinary Shares
Coats Ltd	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
Contractors' Aggregates Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	10,000 Ordinary shares
GPG (UK) Holdings Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	4,369,235,097 Ordinary shares
GPG Coats Finance Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
GPG March 2004 Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary shares
GPG Pension Investments Trustees Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
Guinness Peat International Capital Assets Limited	Canon's Court, 22 Victoria Street, Hamilton HM12 Bermuda	12,000 Ordinary shares
MFC (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	513,645 Ordinary shares
S G Warburg Group Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	100 Ordinary shares
Staveley Guarantee Company Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	Guarantee company
Thomas Robinson Industrial Controls Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary shares

Company	Address	Description and proportion of shares held (%)
Subsidiaries: Indirect holdings of the Company		
Coats Cadena S.A. – Argentina,	Tucuman 1, 4th Floor, (1049) Capital Federal, Argentina	2,697,337 Ordinary Nominal shares
[1] Australian Country Spinners Pty Limited,	Level 7 409 St Kilda Road, Melbourne VIC 3004, Australia	2 Ordinary shares
[2] Australian Country Spinners Unit Trust,	Level 7 409 St Kilda Road, Melbourne VIC 3004, Australia	33,065,105 Units shares
Coats Australian Pty Ltd,	Unit 2, 56 Keys Road, Moorabbin VIC 3189, Australia	2,500,000 Ordinary shares
GPG (Australia Trading) Pty. Limited,	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	4,000,000 Ordinary shares
GPG (No.6) Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	2 Ordinary shares
GPG Nominees Pty Ltd	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	2 Ordinary shares
GPG Services Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	2 Ordinary shares
GPG Tyndall Holdings Pty. Limited	c/o BDO Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	2 Ordinary shares
Guinness Peat Group (Australia) Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	4,000,000 Ordinary shares, 913 Redeemable Preference shares
Kuvondo Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	29,282 Ordinary shares
Sabatica Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	2 Ordinary shares
Coats Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	360,000 Ordinary shares (80%)
Coats Crafts Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	800 Ordinary shares (80%)
Guinness Peat CH Limited	Canon's Court, 22 Victoria Street, Hamilton HM12 Bermuda.	84,643,990 Ordinary shares
Coats Corrente Ltda	Rua do Manifesto, N 705, Bloco A, Ipiranga, Sao Paulo, SP BR, Brazil	9,384,596,741 Ordinary shares
Coats Corrente Textil Ltda	Distrito Industrial, Rodovia RN 160, s/n, Km 2, Sao Goncalo do Amarante RN, CEP 59290-000, Brazil	79,656,382 Ordinary shares
Coats Andean Limited	Newhaven Trustees (BVI) Limited, 3rd Floor, Omar Hodge Building, Road Town, Tortola, British Virgin Islands	23,821,000 Ordinary shares
Coats Group (BVI) Limited	Craigmuir Chambers, Road Town, Tortola VG1110 British Virgin Islands	248,131,825 Ordinary shares
Coats Bulgaria Eood	Tharigradsko shouse bld 7th Km, Sofia 1748, Bulgaria	58,749 Ordinary shares
Coats Canada Inc	10 Roybridge Gate Blvd, Vaughan ON L4H 3M8, Canada	156,760,833 Common (no par value) shares
Staveley Services Canada Inc	44 Chipman Hill, Suite 1000, Saint John NB E2L 2A0, Canada	3,500,000 Common shares
Coats Cadena Ltda	Marathon 4046, Macul, Santiago, Chile	10,539 Ordinary shares
The Central Agency Limited – Chile	Marathon 4046, Macul, Santiago, Chile	42,000 Ordinary shares
Dalian Coats Limited	48-1 Shengli Road, Nanshan Complex, Jinzhou Economic Development Zone, Jinzhou District, Dalian, China	1,370,000 Ordinary shares
Qingdao Coats Limited	Qingdao Huanhai, Economic+Technologial Development Zone, Chengyang, Qingdao 266108, China	1,160,000 Ordinary shares
Shanghai Coats Limited	No.8 Building, Export Processing Garden, Songjiang Industrial Zone 201613, Shanghai, China	1,520,000 Ordinary shares

1 100% owned by the joint venture ACS Nominees Pty Limited

2 100% owned by the joint venture ACS Nominees Pty Limited

GROUP STRUCTURE
CONTINUED

Company	Address	Description and proportion of shares held (%)
Shenzhen Coats Textile Thread Company Limited	North Floor 1, Block 6, Coats Industrial Park, Fengtang Dadao, Tangwei, Fuyong Town, Bao'an District, Shenzhen, China	500,000 shares
Coats Opti Shenzhen Limited	Shenzhen Coats Industrial Park, Fuyong Town, Baoan Distric, Shenzhen, China	24,750,000 shares (90%)
Coats Shenzhen Limited	Shenzhen Coats Industrial Park, Fuyong Town, Baoan Distric, Shenzhen, China	15,800,000 shares (90%)
Guangzhou Coats Limited	533-3 Xin Gang Road, Haizhu District, Guanghou, 510310, China	106,542,000 shares (90%)
Coats Cadena Andina SA – Colombia	Avenida Santander, N.5E-87, Pereira, Colombia	22,399,888 Ordinary shares
Coats Cadena SA Ecuador	De las Avellanas E, 2-74 y El Juncal, Quito, Ecuador	499,002 Ordinary shares
Coats Craft Egypt	Industrial Area Zone B3, Plot 78, 10th of Ramadan City, Cairo, Egypt	250,000 Ordinary shares
Coats Egypt for manufacturing and dyeing sewing thread SAE	Industrial Area Zone B3, Plot 78, 10th of Ramadan City, Cairo, Egypt	319,998 Ordinary shares
Coats Industrial Trading Egypt	Industrial Area Zone B3, Plot 78, 10th of Ramadan City, Cairo, Egypt	50,000 Ordinary shares
Coats El Salvador, S.A. de C.V.	Zona Franca Export Salva, Edificio No 18C, San Salvador, El Salvador	2,000 Ordinary shares
Coats Eesti AS – Estonia	Ampri tee 9/4, Haabaneeme, 74010 Viimsi Vald, Harjumaa, Estonia	740 Ordinary shares
Coats Opti Oy	Ayritie 8A, Vantaa, 01510, Finland	4,000 Ordinary shares
Coats France S.A.S.	8 avenue Hoche, 75008, Paris, France	3,691,333 Ordinary shares
Coats GmbH	Huefingerstrasse 28, D-78199, Braunlingen, Germany	1 Ordinary shares
Coats Opti Germany GmbH	1 Suedwieke 180, 26817 Rhauderfehn, Germany	1,000,000 Ordinary shares
Coats Thread Germany GmbH	Huefingerstrasse 28, D-78199, Braunlingen, Germany	17,704,000 Ordinary shares
Schwanenwolle Tittel & Krueger AG i. L	RHS, Stadtstrasse 29, 79104 Freiburg, Germany	5,700 shares
Centraltex de Guatemala, S.A.	Avenida Petapa 42-85, Zona 12, Bodega No. 7, Guatemala	50 Ordinary shares
Coats de Guatemala, S.A.	13-78 Zona 10, Edif. Intercontinental Plaza Torre Citigroup Nivel 17, Oficina 1702, Ciudad, Guatemala	6,000 Ordinary shares
Crafts Central America, S.A.	26 Avenida, No. 7-27 Zona 4 Mixco oficina 11, Guatemala	100 Ordinary shares
Distribuidora Coats de Guatemala, Sociedad Anomina	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala,	6,000 Ordinary shares
Guatemala Thread Company Sociedad Anonima	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala	500 Ordinary shares
Coats Honduras, S.A.	Edificio #13 Zona Libre Inhdelva, 800 mts. Carretera a la Jutosa, Choloma, Cortes, Honduras	250 Ordinary shares
China Thread Development Company Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	9,996,000 Ordinary shares
Coats (China) Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	1,491,753 Ordinary shares
Coats China Holdings Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	7,085,000 Ordinary shares
Coats Hong Kong Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	90 Ordinary shares (90%)
Coats Opti Hong Kong Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	10,000 Ordinary shares
Coats Thread HK Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	2 Ordinary shares
Fast React Asia (HK) Limited	Room 2203 22/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong	10 Ordinary shares
Fast React (Far East) Co Limited	Room 2203 22/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong	100 Ordinary shares
Coats Magyarorszag Cernagyarto es Ertekesito Korlatolt Felelossegu Tarsasag	1044 Budapest, Vaci ut 91, Hungary	20,000 Ordinary shares
Kor Investments Private Limited	Head Office, 144 Mahatma Gandhi Road, Bangalore 560 001, India	249,999 Ordinary shares
Madura Coats Private Limited	Head Office, 144 Mahatma Gandhi Road, Bangalore 560 001, India	6,000,100 Ordinary shares
PT Coats Trading Indonesia	Ventura Building, 4th Floor, Jl RA Kartini No 26, Cilandak, Jakarta 12430, Indonesia	200,000 Ordinary shares
PT. Coats Rejo Indonesia	Ventura Building, 4th Floor, Jl RA Kartini No 26, Cilandak, Jakarta 12430, Indonesia	3,324,000 Ordinary-A shares, 5,926,540 Ordinary-B shares
Coats (Israel) Ltd	Argaman Site, Shidlovsky Road, Yavne Industrial Estate (Northern), Yavne, Israel	3,000 Ordinary shares
Coats Thread Italy Srl	Viale SARCA, No. 223, Milano, Italy	1 QUOTA shares
Coats Korea Co., Limited	74 Siu-ro, Danwon-gu, Ansan, Republic of Korea	198,000 Ordinary shares
Coats Latvija SIA	Delu iela 4, Riga, LV-1004, Latvia	608 Ordinary shares
Coats Lietuva UAB	Juozapaviciaus 6/2, LT – 09310, Vilnius, Lithuania	10 Ordinary shares
Coats (Madagascar) International	First Immo, Galaxy Industrial Estate, Rue du Dr. Raseta, Andraharo, Antananarivo, Madagascar	100 Ordinary shares
Coats (Madagascar) S.AR.L (EPZ)	First Immo, Galaxy Industrial Estate, Rue du Dr. Raseta, Andraharo, Antananarivo, Madagascar	100 Ordinary shares
Coats Thread (Malaysia) Sdn. Bhd.	49-B Jalan Melaka Raya 8, Taman Melaka Raya, 75000 Melaka, Malaysia	127,500 A shares, 75,000 B shares, 46,700 C shares (99%)
Coats Indian Ocean Holding Co Limited	2nd Foor, IBL House, Caudan, Port-Louis, Mauritius	23,553 Ordinary shares
J & P Coats (Mauritius) Ltd	Allee des Mangues, Pailles, Mauritius	418,533 Ordinary shares
Administraciones Timon SA de CV	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	4,105,420 Ordinary-B shares, 2,500 Ordinary-A shares
Coats Assets de Mexico SA de CV	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	205,880,990 Series A Fixed shares

GROUP STRUCTURE
CONTINUED

Company	Address	Description and proportion of shares held (%)
Coats Mexico S.A. de C.V.	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	45,000 Ordinary-A shares, 567,200,257 Ordinary-B shares
Grupo Coats Timon S A de C V	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	500 B1 shares, 23,794,072 B2 shares, 111,425 B2 SPECIAL SERIES shares
Coats Maroc	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	200,000 Ordinary shares
Mercerie Industrielle de Casablanca	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	31,980 Ordinary shares
Guinness Peat Group International Holdings BV	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	484 Ordinary shares
[3] Australian Country Spinners (NZ) Limited	Strawinskylaan 1113, 1077XX, Amsterdam, 1077XX, The Netherlands	2,000 Ordinary shares
Coats Patons (New Zealand) Ltd	3 Mana Place, Wira, Aukland, New Zealand	7,000,000 Ordinary shares
Coats de Nicaragua SA	Esso Salvadorita 1/2 cuandra al Oeste Centro Perisferico Mod, #8, Managua, Nicaragua	500 Ordinary shares
J & P Coats Pakistan (Pvt) Limited	Office No. 112-113, Park Towers, Sharae Firdousi, Clifton, Karachi, 75600, Pakistan	2,999,920 Ordinary shares
Coats Cadena Investment SA	Av Nicolas de Ayllon No.2925, Lima 10, Peru	1,265,973,427 Ordinary shares (99%)
Coats Cadena SA – Peru	Av Nicolas de Ayllon No.2925, Lima 10, Peru	98,659,340 Ordinary shares (99%)
Allied Thread Co., Inc.	Dr. Sixto Antonio Ave, Bo. Maybunga, Pasig City, Philippines	11,514,496 Common shares
Coats Polska Spolka z oganiczona odpowiedzialnoscia	91-214 Lodz, ul, Kaczencowa 16, Poland	21,092 Ordinary shares
Coats Comercio de Linhas, Fechos e Acessorios Para a Industria SA	Praca do Almada, No 10, 4490, Povoa do Varzim, Portugal	150,000 Ordinary Bearer Shares
Companhia de Linha Coats & Clark S.A.	Quinta De Cravel, Oporto, Vila Nova de Gaia, 4430 073, Mafamude, Portugal,	5,000,000 Bare Shares
Coats Romania SRL	Municipiul Odorheiu Secuiesc, Str. Nicolae Balcescu, Nr. 71, Judetul Harghita	198,916 Ordinary shares
Coats LLC	House 53a, Lenin Str., pos. Oktyabrsky, Luberetskij District, 140060, Moscow Region, Russia	133,681 shares
Coats International Pte Limited	10 Changi Business Park Central 2, #05-01 HansaPoint, 486030, Singapore	337,092,726 Ordinary shares
Coats Overseas Pte Limited	10 Changi Business Park Central 2, #05-01 HansaPoint, 486030, Singapore	1 Ordinary shares
Coats South Africa (Proprietary) Limited	14 Kelly Road, PO Box 14, Hammarsdale, 3700, KZN, Natal, South Africa	98,320,000 Ordinary shares, 3,803,000 Non-redeemable Preference Shares, 5,000,000 Cumulative Redeemable Preference shares, 124,000,000 Non-redeemable Non-cumulative Variable Rate Convertible Preference shares
Cotnat Properties (Proprietary) Limited	14 Kelly Road, PO Box 14, Hammarsdale, 3700, KZN, Natal, South Africa	2 Ordinary shares
Coats Spain, S.L.	Poligono Industrial Can Roqueta, Avda.Ca N'Alzina nr.79, Calle N'Alzina, Sabadell, Barcelona, Spain	3,000 Ordinary shares
Gotex S.A.	Poligono Industrial Can Roqueta, Avda.Ca N'Alzina nr.79, Calle N'Alzina, Sabadell, Barcelona, Spain	10,000 Ordinary shares
Coats Thread Exports (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 4, Sri Lanka	105,000 Ordinary shares (99%)
Coats Thread Lanka (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 4, Sri Lanka	2,893,500 Ordinary shares (99%)
Coats Expotex AB	Box 25, Stationsvagen 2, SE-516 21, Dalsjofors, Sweden	100,000 Bearer shares
Coats Industrial Scandinavia AB	Box 109, SE-516 22 Dalsjofors, Sweden	100 Bearer shares
Coats Stroppel AG	Untersiggenthal, Postfach, 5300 Turgi, Switzerland	200 10,000 SWISS FRANC shares
Coats Threads (Thailand) Ltd	39/60 Moo 2 Tambol Bangkrachaw, Amphur Muang, Samutsakorn Province 74000, Thailand	140,000 Ordinary shares
Coats Industrial Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	90,000 Ordinary shares
Coats Trading Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	38,500 Ordinary shares
Coats (Turkiye) Iplik Sanayii AS	Organize Sanayi Bolgesi Mavi Cad. No 2, 16371 Bursa, Turkey	13,216,976 New Ordinary shares (92%)
Coats Ukraine Ltd	Moskovskiy ave. 28A, litera B, Kiev, 04655, Ukraine	14,348,257 Ordinary shares
Arrow HJC	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	99 Ordinary shares
Allen, Solly & Company Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	100 Ordinary shares
Allied Mutual Insurance Services Ltd	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary shares
Anfield 1 Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	199,999 Ordinary shares
Anfield 2 Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	527,526 Deferred shares, 1,000 Ordinary shares
Barbour Threads Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, U.K.	810,500 Ordinary shares
BMM (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
Brown Shipley Asset Management Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
Brown Shipley Holdings Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	51,043,575 Ordinary shares
Brown Shipley Investment Management	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary shares
Brunel Pension Trustees Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
BSH Acquisition Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary shares
Cardpad Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares

GROUP STRUCTURE
CONTINUED

Company	Address	Description and proportion of shares held (%)
Chain Insurance Company Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
Coats (UK) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	99,038,462 Ordinary shares
Coats Finance Co. Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	17,000,000 Ordinary shares
Coats Global Services Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	12,000,100 Ordinary shares
Coats Group Finance Company Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
Coats Holding Company (No. 1) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	198,876 Ordinary shares
Coats Holding Company (No. 2) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	10,753,227 Ordinary shares
Coats Holdings Investments Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
Coats Holdings Ltd	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1,806,365,546 Ordinary shares
Coats Industrial Europe Holdings B.V.	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	18,000 Ordinary shares
Coats Industrial Thread Brands Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary share
Coats Industrial Thread Holdings B.V	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	18,020 Ordinary shares
Coats Industrial Thread Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	37,814,890 Ordinary shares
Coats Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	75,050,100 Ordinary shares
Coats Northern Holdings B.V.	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	18,000 Ordinary shares
Coats Patons Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, U.K.	100 Ordinary shares
Coats Pensions Trustee Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary shares
Coats Property Management Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	25,000 Ordinary shares
Coats Shelfco (BDA) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	5,937,428 Ordinary shares
Coats Shelfco (CV Nominees) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	100 Ordinary shares
Coats Shelfco (CVG) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	5 Ordinary shares
Coats Shelfco (HL) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	10 Ordinary shares
Coats Shelfco (VL) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary Stock Unit shares
Coats Shelfco (VV) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	8,131,240,347 Ordinary shares, 182,501,287 Deferred shares
Coats Shelfco (WMB) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	239,496 Ordinary shares
Coats Shelfco Precision Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
Coats South America Holdings B.V.	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	18,004 Ordinary shares
Coats South Asia Holdings B.V.	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	18,004 Ordinary shares
Coats Southern Holdings B.V	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	18,000 Ordinary shares
Coats Thread (UK) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1,000 Ordinary shares
Corah Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	81,656,791 Ordinary shares, 327,760 4.2% CUMULATIVE Preference shares
CV Woven Fabrics Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	420,000 Ordinary shares
D. Byford & Co Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2,800,000 Ordinary shares, 200,000 Preference shares
Embergrange	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
Fast React Systems Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	45,425 Ordinary shares
Fast React Systems (Bangladesh) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary share
GPG (UK) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	50,000 Ordinary shares, 234,595,817 Ordinary shares
GPG Acquisitions No. 3 Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	50,000 Ordinary shares, 696,200 Ordinary shares
GPG Australia Nominees Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
GPG Europe Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	181,113 Ordinary shares
GPG Finance Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	50,000 Ordinary shares
GPG March 2004 Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	12 Ordinary shares
GPG Pension Trustees Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
GPG Securities Trading Ltd	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	60,000,000 Ordinary shares
Griffin SA Ltd	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2,575,680 £1 Ordinary shares
GSD (Corporate) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	40,000 Ordinary shares
GSD Holdings Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	90 Ordinary-A shares, 10 Ordinary-B shares
Guinness Peat Overseas Holdings Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	17,089,226 Ordinary shares
Hicking Pentecost Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	31,890,849 Ordinary shares
I.P. Clarke & Company Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	100 £1 Ordinary shares
J.& P. Coats, Limited	1 George Square, Glasgow, Scotland G2 1AL U.K.	334,145,393 £1 Ordinary shares

3 100% owned by Australian Country Spinners Pty Limited

GROUP STRUCTURE
CONTINUED

Company	Address	Description and proportion of shares held (%)
John Murgatroyd Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	39,402 Deferred shares, 39,402 Ordinary shares, 30,000 6% Preference shares
KEP (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1,100,000 Ordinary shares
Marshaide Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1,273,272 Ordinary shares
MCG Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	100 Ordinary shares, 40 Preference shares
Needle Industries Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	350,000 Ordinary shares
NUH No. 1 Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
Pasolds Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, U.K.	1 Ordinary shares
Patons & Baldwins Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	10,768,016 Ordinary shares
Patons Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	600,000 Ordinary shares, 400,000 7% Preference shares
Simpson, Wright & Lowe, Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	100 £1 Ordinary shares
Sir Richard Arkwright & Co. Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1,000 Ordinary shares
SIRBS Pension Trustee Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary shares
Staveley 2005 No 3 Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	250,000 £1 Ordinary shares
Staveley Industries Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	159,649,006 25P Ordinary shares
Staveley Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
Staveley Services Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	78,962,434 Ordinary shares
The Central Agency Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, U.K.	1,000 £10 Ordinary shares
The Coats Trustee Company Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 £1 Ordinary shares
The International Thread Company Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	100 £1 Ordinary shares
Thomas Burnley & Sons, Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	100,000 Ordinary shares
Tootal Clothing Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
Tootal Group Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	292,548,120 Ordinary shares, 5,879,641 3.5 % Cumulative Preference shares
Tootal Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	2 Ordinary shares
Tootal Textiles Holdings Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	1 Ordinary shares
Calico Printers Association (USA) Limited	CT Corporation System, 111 8th Avenue, New York, NY 10011, USA	20,000 Ordinary shares
Coats & Clark Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	593,501 Ordinary shares
Coats & Clark's Sales Corporation	CT Corporation System, 820 Bear Tavern Road, West Trenton, NJ 08628, USA	2,498 Ordinary shares
Coats American Inc	CT Corporation System, 820 Bear Tavern Road, West Trenton, NJ 08628, USA	1,796,064 Common shares
Coats American, LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE, United States	100 shares
Coats Garments (USA) Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	500 Ordinary shares
Coats Holdings Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	500 Ordinary shares
Coats North America Consolidated Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	11,190 Ordinary shares, 10,000 Class B Voting Shares
Coats North America de Republica Dominica Inc	c/o CT Corpporation System, 225 Hillsborough Street, Raleigh, Wake County, North Carolina 27603, USA	100,000 Ordinary shares
Coats Puerto Rico Inc	CT Corporation System, 150 Fayetteville Street, Box 1011, Raleigh NC 27601, United States	1 Ordinary shares
Jaeger Sportswear Ltd	CT Corporation System, 111 8th Avenue, New York, NY 10011, USA	20 COMMON shares
Staveley Inc	401 Merritt 7, NORWALK, Connecticut, 06856	141 Ordinary shares
Westminster Fibers, Inc.	c/o The Corporation Trust, 1209 Orange Street, Wilmington, Delaware	1,000 Common shares
Coats Cadena S.A. – Uruguay	Rufino Dominguez 1864, Montevideo, Uruguay	77,152,220 Ordinary shares
Cambridge Medical Production CA (Cameproca)	Av. Principal de los Ruices, "Don Diego Cisneros", Caracas, Venezuela	1000 Ordinary shares
Coats Cadena SA – Venezuela	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro,	
	Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	4,234,741 Ordinary shares
Coats Moderm Accessories C.A. (Comaca)	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	200 Ordinary shares
Cothilca S.A.	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	13,580 Ordinary shares (97%)
Distribuidora El Costurero, S.A. (DICOSA)	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	15,000 Ordinary shares

GROUP STRUCTURE
CONTINUED

Company	Address	Description and proportion of shares held (%)
Hilanderia San Joaquin, S.A.	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	1,000 Ordinary shares
Hilos Cadena, S.A.	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	1,000 Ordinary shares
Hilos Elefante C.A.	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	1,000 Ordinary shares
Informatica Robox, S.R.L	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	500 Ordinary shares
International Kroob CA	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	8,778 Ordinary shares
Representaciones Glenifa, S.A.	Av. Principal de los Ruices, "Don Diego Cisneros", Caracas, Venezuela	950 Ordinary shares
Venexport S.R.L	Ciudad Industrial la Union, Sector Fundo la Union – Autopisa Regional del Centro Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia – Estado Carabobo, Venezuela	570 Ordinary shares
Coats Phong Phu Limited Liability Company	Tang Nhon Phu B Ward, District 9, Ho Chi Minh City, Vietnam	9,065,143 Ordinary shares (64%)

Joint Ventures:		
ACS Nominees Pty Limited	Level 7 409 St Kilda Road, Melbourne VIC 3004, Australia	9,000,000 Ordinary shares (50%)
Guangying Spinning Company Limited	2 Yuan Cun Xi Jie Guangzhou, 510655, China	320,000 Ordinary shares (50%)
Tianjin Jinying Spinning Co Ltd	Jinlai Road Liqizhuang, Xi Qing District, Tianjin, 300381, China	10,250,000 Ordinary shares (50%)
S&P Threads Pvt Limited	Delite Theatre Building, III Floor, Asaf Ali Road, New Delhi, 110 002, India	300,000 Ordinary shares (50%)
Coats VTT Limited	1 The Square, Stockley Park, Uxbridge UB11 1TD U.K.	10,000 Ordinary shares (50%)

SHAREHOLDER INFORMATION

United Kingdom
1 The Square, Stockley Park, Uxbridge,
Middlesex UB11 1TD

Tel: 020 8210 5000
www.coats.com

Managing your shareholding online
UK registered members
To manage your shareholding online,
please visit: www.investorcentre.co.uk

Incorporated and registered in England No. 103548

Registered office: 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD

Location of share registers
The Company's register of members is maintained in the UK

Register enquiries may be addressed direct to the Company's share registrars named below:

Registrar	Telephone and postal enquiries	Inspection of Register
UK Main Register:		
Computershare Investor Services PLC	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ Tel: 0370 707 1022 Facsimile: 0370 703 6143	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

WWW.COATS.COM/ARA2016

A full copy of our Annual Report can be downloaded, along with other relevant documents from www.coats.com/ara2016

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Uxbridge
Middlesex UB11 1TD

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